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# China Report

## ECONOMIC AFFAIRS

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CHINA REPORT  
ECONOMIC AFFAIRS

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## PROBLEMS IN STABILIZING AND ADJUSTING PRICES SINCE 1979

HK070037 Beijing JINGJI YANJIU in Chinese No. 6, 20 Jun 85 pp 39-53

[Article by Xue Muqiao [5641 2550 2890]: "Problems in Stabilizing and Adjusting Prices Since 1979"--passages within slantlines published in boldface]

[Text] I. Changes in Prices in Recent Years and the Need to Adjust Prices

The problem of stabilizing and adjusting prices came after the 3d Plenary Session of the 11th CPC Central Committee. The move to stabilize and adjust prices now is different from the two previous efforts. The previous two moves were carried out under the situation of decreasing production and a severe short supply of commodities. The present move was launched under the situation of consistently increasing production and an abundant supply of commodities. Over the past few years, industrial and agricultural production has been increasing consistently, supply of commodities on the market has gradually improved, and supply in confined quantities has been gradually abolished. Under such circumstances, we must elaborate why there is still the question of stabilizing and adjusting prices.

The main reason for the present move to stabilize and adjust prices is because prices were frozen for the 10 years upheaval of the "Great Cultural Revolution" and the price system had become more and more irrational. The production costs of agricultural and mineral products had increased while their prices remained the same. This meant that relative prices were obviously low. This led to retarded development in production and a deterioration in the supply of products. Thus, it was necessary to raise prices to a large extent. Agricultural products are a major component of consumer products, so if their market prices are raised following a rise in procurement prices, it will seriously affect the lives of the urban population and some of the rural people who eat "resold grain." Therefore, when the procurement prices of agricultural products were raised by great extents in 1979, a subsidy of 5 yuan was given to the workers following the rise in the market prices of meat, eggs, and so on. Only the procurement prices of grain, oil, and similar products were raised, while the market prices remained unchanged, adversely linking the procurement prices and the market prices, and the financial subsidies were increased by a great extent following the rapid development in agricultural production. Mineral products such as coal, steel, timber, cement, and other raw materials constitute a major part of material consumption in production. If the prices are raised by a large

extent, it causes a general rise in the production costs of various industrial products and thus it is hard to stabilize the market prices. In order to concentrate energy on readjusting the proportions of the national economy, only partial and minor readjustments in the prices of these products were made (for example, the price of coal was raised by 5 yuan per ton and the prices of pig iron and cement were slightly raised). The central distribution prices of various means of production are currently still too low, which is detrimental to stimulating production. Thus it is necessary to supplement coal, oil, steel, and other products sold at negotiated prices. As a result, two kinds of prices of the means of production have appeared (planned prices and negotiated prices), and there are two different distribution channels (planned distribution and procurement and marketing at negotiated prices). The prices of most industrial products for daily use were only partially readjusted. A blind increase in the production of certain products which were sold at high prices and yielded greater profits or termination or withdrawal of certain products which were sold at low prices and yielded meager profits would only be detrimental to the balance of market supply and demand. Constant prices for a considerable time and more or less equal prices despite differences in quality are also detrimental to stimulating the enterprises to improve quality and speed up the renovation of products which suit the incessant demands of the people's lives. Therefore, we can still say that the price problem is far from being rationally solved.

Inflation has appeared to a certain degree during the readjustments over the last few years. For a long time before 1978, due to the "leftist" mistakes, production had been sabotaged several times and the people's standard of living had not improved for a long time. Thus the people deserved much. After the 3d Plenary Session of the 11th CPC Central Committee, the party Central Committee decided to readjust the proportions of the national economy and improve the people's standard of living in a short time. The procurement prices of agricultural products were raised by a large percentage in 1979, the wages of workers were raised, and bonuses were given to them, thus, the people's standard of living obviously improved. The increased financial expenditure was tentatively to be compensated by the reduction in the scale of capital construction investment, but what resulted was that the purchasing power of the people greatly exceeded the original plan and the scale of capital construction investment could not be reduced but even grew slightly when compared with that of 1978, because the decision to reduce the scale of capital construction investment was late and implementation was not firm enough. All this resulted in an unprecedented deficit of 17 billion yuan and the state was forced to issue more currency. The situation did not improve in 1980, as the deficit still amounted to over 12 billion yuan, and more currency was issued again.

In 1981, the state was determined to reduce the scale of capital construction investment. There was a rough balance between financial revenue and expenditure, supply of the means of production was quite sufficient; the supply of many machinery products exceeded demand, and the supply of consumer products was ample. A "buyers" market appeared in regard to most machinery products and consumers products. This accelerated improvements in the quality of goods and renovation of products and helped arrange production in accordance with market demands. Although the fixed asset investment (including investment in technical

renovation and reform of the enterprises) went up slightly in 1982, financial revenue and expenditure was nearly balanced and not much additional currency was issued. There was a relatively great increase in fixed asset investment and in the income of urban and rural people in 1983 and 1984, but an approximate balance could still be attained between financial revenue and expenditure due to the fact that both industrial and agricultural development far exceeded the state plans. However, since there were excessive increases in bank credits and the consumption funds in 1984 and since currency was excessively issued, the average prices were slightly raised in the course of structured readjustment.

Over the last few years, the state has relaxed control over the prices of non-staple foodstuffs and there has been an abundant supply of non-staple foodstuffs. Prices have been freely regulated in accordance with market supply and demand under the guidance of state plans. Inflation appeared of prices which had previously been controlled by the quantity of supply and price subsidies. Therefore, prices of non-staple foodstuffs were increased to a relatively large extent. However, the result of this was that production accelerated and supply gradually increased, and changes in the food habits of the people began to take place. People began to demand better food. The proportion of staple food (grain) was lowered and that of non-staple foods rose. The people's demand for grain shifted from not only seeking an adequate supply but also seeking better quality. (The peasants changed from eating potatoes to eating coarse grain and fine grain, and the urban people reduced their intake of food grains other than wheat and rice and demanded polished rice and noodles). It was necessary to improve the people's consumption power in regard to food in order to cope with such changes in food habits. There would never have been such a good situation in both procurement and purchase if the income of the urban and rural residents had not increased proportionally. In order to ensure the incessant improvement of the quality of food (this is an important symbol of the incessant improvement of the people's standard of living), we must still continue to relax control over prices and make better use of the law of value and the role of the market. Experience in certain places such as Guangdong and Fujian has proved that during the initial stage when control over the prices of non-staple food is relaxed, there is a short time when supply does not meet demand and when prices naturally go up, but when non-staple foodstuffs are later produced in large quantities because of food profits, prices naturally come down.

The prices of consumer products in relation to clothing (textile products and garments) have remained basically stable over the last few years. Due to rise in the price of cotton on several occasions over the last few years, cotton cloth changed from yielding high profits to losing money. At the same time, owing to a rapid development in the chemical fiber industry, the production costs of chemical fiber cloth was lowered by a large degree. Originally, chemical fiber cloth could be sold at lower prices, but the state dared not lower the prices by a large percentage because it wanted to use the profits of chemical fibers to compensate for the deficits of cotton cloth. As a result, the amount of chemical fiber produced was greater than demand, leading to serious accumulation, and the production of chemical fibers had to be reduced.

In the beginning of 1983, the state was determined to change the prices of cotton cloth and chemical fibers, raising the price of cotton cloth (the average increase was 20 percent) and lowering the price of chemical fiber cloth by a large percentage (ranging from 12 to 30 percent according to different types). As a result, chemical fiber cloth became much more marketable and limited production turned into increased production. Due to the popularity of chemical fiber cloth (the amount sold in 1983 increased by 42.9 percent over the preceding year) and reduced purchases of cotton cloth, we were able to cancel cloth quotas and allow free supply. There was still an excessive stock after the free supply was allowed, and the prices subsequently went down. There have been apparent changes in the people's clothing over the last few years. The demand has shifted from warmth to beauty. Old materials and fashions have been constantly replaced by new ones. If the textile industry does not promptly improve the quality of materials or replace old fashions with new ones, it will be unable to fulfill the growing demands of the people's lives. Naturally, people have to spend a little more money on clothes because the quality has been improved, but this is different from merely raising prices, since better quality bring higher prices. Thus, the people are satisfied with the readjusted prices of textile products.

There have also been obvious changes in the demand for household products over the past few years. A few years ago the people wanted bicycles, sewing machines, and watches. Now the demand for these durable consumer products has been satisfied. The people now want the "three new big things"--television sets, refrigerators, and washing machines, as well as other high-class durable consumer products. Whether it is the old three big things (mainly the watches) or the new three big things, the prices have become lower and lower over the last few years and are expected to drop still lower in the future. A few years ago, people had to save enough money for the purchase of the three new big things, but in the past year, since people in both the urban and rural areas have been making more and more money, they do not have to save money for these purchases but rush to purchase these things. High-quality wood furniture has also become one of the rush-purchase items, and the prices are always going up. The rush-purchase of high-quality durable consumer goods will not bring any problems because, except for woodproducts, the production of newly developed industrial products is increasing by leaps and bounds every year and the production costs are lowering gradually. Rapidly selling these products is an effective means to withdraw money from circulation, similar to selling high priced products in the early 1960's.

In short, although there were financial deficits in the period from 1979 to 1984 and the currency issued was a bit excessive, the rapid development of industrial and agricultural production, particularly the development of the former, brought about an ample supply of consumer products on the market. The market prices have been quite steady with only slight increases.

Over the last few years, the greatest percentage of price increase was found in the prices of non-staple foods. The prices of durable consumer products have been obviously lowered. The price increases offset the price decreases.

Prices were raised at an average percentage of about 4 percent in 1979 and 1980. The rate of increase became quite stable in the following few years and the annual average increase was 2 to 2.5 percent. In the period between 1978 and 1984, the total retail price index grew by 17.5 percent and price index of the living expenses of the workers rose by 19.9 percent. Simultaneously, the annual per capita income for living expenses of the people living in cities and townships throughout the whole country increased by 92.4 percent, and the average per capita net income of the rural people increased by 164.9 percent. The percentage of price increase was not too high when compared to the increase in the income of the urban and rural people. The price increases of agricultural products, in particular the non-staple foodstuffs, over the last few years enabled the peasants to increase their income. They were satisfied with the price changes and thus have vigorously enhanced enthusiasm for increasing production, which has brought about an ample supply on the urban markets. However, people living in the urban areas still do not favor price increases because of the great percentage of price increase in the non-staple foodstuffs. We should note that in the course of raising the prices over the last few years, there have also been changes in the people's consumption pattern. Besides increasing the procurement prices of agricultural products, the state has also given the workers price subsidies, increased the workers' wages, and implemented the bonus system. As a result, the standard of living of the majority of people living in the urban areas has been raised by a remarkable extent. The readjustments of the prices of various industrial products, including increases and decreases, were made for the sake of rectifying the irrational situation in the past in which the prices seriously deviated from the value. This was conducive to speeding up production of products in short supply and ensuring the market supply. Matches are an example: Due to several price increases for timber, the production cost of matches rose and the price of each box of matches had to go up from 0.02 yuan to 0.03 yuan. Nevertheless, the state dared not further raise the price of matches since they were needed in every house. Supply fell short of demand for a long time, and matches were sold in limited quantities in certain places or could not even be bought. Which is better, allowing free supply by raising the prices or keeping the price stable and limiting supply quantities; I prefer the former to the latter. For the past several years, we have relaxed price management over many small commodities. Generally speaking, there have not been significant changes in the prices of these commodities and the prices of certain products in short supply have been slightly raised, but production has also become rapid in order to better suit the market demands. Such a development is obviously good for the people.

The 3d Plenary Session of the 12th CPC Central Committee put forth the idea that it is necessary to shift the focus of economic work to restructuring the national economy with the focus on the urban economy, further expand the decisionmaking rights of the enterprises, reduce the scale of mandatory planning, allow the enterprises to organize production in accordance with the market demands after fulfilling the state plans, and pay profit taxes and other kinds of taxes instead of turning over all the profits so that the enterprises can realize independent accounting and be solely responsible for the profits and losses. The prices of many products deviated from value in the past, which

hindered the enterprises from carrying out correct economic accounting. The amount of profits made was not dependent on the standard of management but was determined by the prices of raw materials and the prices of the products. All this have caused more difficulties for the enterprises in achieving independent accounting and being solely responsible for profits and losses. After reducing the extent of mandatory planning and enlarging the extent of guidance planning, we must do a good job in making use of the law of value and guide the development direction of production by the economic lever of the price policy. If, under the situation where the prices neither reflect value nor the situation of supply and demand, the enterprises "vigorously promote the production of products which yield great profits, carry out small-scale production of products which yield low profits, and cease production of products which yield no profits at all" in accordance with the distorted price signals, then the balance between the production of various products and market demands will definitely be affected. This will be detrimental to the planned and proportional development of the national economy. Thus, the 3d Plenary Session of the 12th CPC Central Committee pointed out that reform of the irrational price system is the key to the success of the restructuring of the national economy. Rationally readjusting the prices of various products and reforming the past price management system which exercised overly rigid control have become important tasks in current economic work.

## II. Problems Which Require Further Solution in Reforming the Price System

The focus of economic work over the last 5 years was laid on making readjustments. In order to stabilize the market and settle the people's lives, the state has adopted the principle of advancing with steady steps in readjusting the prices. In view of the present situation, there are still several important questions which have not yet been solved. The following are problems which have been solved in the past and those which are being studied at present:

First, there is the problem of the procurement prices of agricultural products.

In 1979, the overall standard of the procurement prices of agricultural products was raised by 22.1 percent. The increase totalled 10.8 billion yuan, which was a considerable stride forward. There were individual readjustments of the procurement prices of agricultural products in each of the following years, due to increased agricultural production. The percentage of products sold in excess of quotas, with raised prices, was consistently on the increase, when comparing 1984 to 1978. The procurement prices of agricultural products were raised by nearly 50 percent and the comprehensive price parities between industrial and agricultural products were reduced by 30 percent. This has proved that the peasants had obtained obvious economic benefits after reforming the management system of agricultural production and implementing the system of contracted production, thus vigorously pushing forward the rapid increase of agricultural production and the rapid improvement of the people's standard of living over the last few years. Although the plan for price increases of agricultural products in 1979 was basically rational, prices of products which were produced in excess of procurement quotas were raised by 50 percent, a percentage which was a bit too high. The problem would not be so serious if the

price-rise bonus was only confined to grains but had not been extended to other cash crops such as cotton, oil crops, and tobacco. There were fixed bases for the procurement of grain in various places and the proportion of bonus for sales in excess of the base was relatively small. The procurement base was very low for cotton, oil crops, tobacco, and so on in many of the new production areas, while there were too much excess for sale. For a certain period, some areas where cash crops such as rapeseed, cotton, and tobacco had never been grown or been scarcely grown before, suddenly increased production of these products by an enormous amount. The amount sold in excess of quota with raised prices was equivalent to about 80 percent of the procured amount. This led to excessively high prices, blind development, and misuse of grain fields. This abnormal situation was only rectified in 1982 when the raised price for the sale of rapeseed in excess of quotas was lowered and price increases for tobacco were cancelled. However, price increases for cotton remained unchanged. New cotton-producing areas in the northwest of Shandong Province produced in excess of 80 percent of the quota which was sold with increased prices, and the procurement price here was far higher than that in Nantong and other old cotton-producing areas (where only 40 percent was procured in excess of quota), bringing about blind development of cotton production, which became hard to control in the new cotton-producing areas. In order to change this situation, overall procurement of cotton was abolished this year and the system of procurement contracts was implemented. As far as the state procurement of cotton was concerned, the proportion of sales in excess of quota with increased prices was lowered in the new cotton-producing areas and increased in the old cotton-producing areas. The proportion remained constant despite increased or decreased procurement. Cotton produced in excess of state contract procurement could be marketed freely. It could be sold with negotiated prices or sold to the state in accordance with the centralized procurement prices. Thus, cotton prices would be similar in both the new and old cotton-producing areas in order to readjust the area of cotton distribution.

There are also flaws in the sale of grain produced in excess of quotas with increased prices. First, agricultural production can be abundant or deficient. Prices will be increased to a greater extent in the areas with abundant production while prices will be increased only by a small extent in the areas with deficient production; thus fortune and hardship are not balanced. Secondly when the procurement base remains the same, the proportion of the sales of grain with increased prices will incessantly increase following the increases in production. This means raising the prices every year. Grain procurement will be cancelled from this year onward and a similar system of cotton contract procurement will be adopted. The prices of all procured grain will be calculated in the ratio of "reversed three to seven" (that is, 30 percent in accordance with the original centralized procurement price and 70 percent in accordance with the price of sale in excess of quota). In fact, this means abolishing the system of double procurement prices, establishing only one procurement price for agricultural products in all areas throughout the country, and preventing prices from going up again when production is increased. Thus the state is able to readjust prices in a planned way to guide the production of various crops and avoid blind development of certain crops in certain areas. Experience over the past years has proved that although agricultural production is scattered, the state can still make use of the price policy to guide the

proportional development of agricultural production. Actual experience has shown that the past practice of ensuring the proportional development of agricultural production by fixing the cultivation area of various crops was a failure. Regulation by means of the price policy is a successful experience and has proved that our road of reform is perfectly correct.

When the procurement price of pigs was increased in 1979, pig rearing was so extensively developed in certain areas in a short time that supply was greater than demand, some peasants had difficulties selling their pigs, and the price of pork on the markets was even lower than the state stipulated price. But when procurement prices of grain increased in the following years, the procurement price of pigs became relatively low and selling pigs was more difficult than selling grain, thus pig rearing was reduced to a certain extent in certain areas and the supply of pork became tight. Since the situation of pork supply and demand varied in different areas, a centralized readjusted price could not suit different demands in various areas, so the readjustment of pork prices should be flexibly arranged in accordance with state policies in light of local conditions. We should not demand uniformity in prices, and prices should be allowed to fluctuate in accordance with market supply and demand. Prices of non-staple food such as poultry, eggs, aquatic products and vegetables should also be relaxed from the south to the north in accordance with local conditions, expanding the scale of market regulation. Since our state has been strictly controlling the prices for a long time, communication between supply and demand was ineffective. If the prices are totally controlled by market mechanisms, fluctuation between prices and the situation of supply and demand can hardly be avoided in a short time. Thus, the state-run commercial establishments should take part in market regulation, signing procurement contracts with the specialized villages and specialized households, getting hold of certain sources of goods, and carrying out supply and demand coordination in various areas in order to prevent a great fluctuation in supply and demand and in the prices of pork and other non-staple foods. At present, grain storage is excessive. We can turn part of the grain into fodder (it is necessary to develop the fodder processing trade) in order to yield meat, fish, poultry, eggs, and milk to improve the people's nutrition. Therefore, the animal husbandry industry has great prospects. The supply of meat, fish, poultry, eggs, and milk will be rapidly increased when their prices are readjusted, but the prices can be maintained at a rational level under the condition that state-run commercial establishments participate in price regulation. The income of the people living in both the urban and rural areas has rapidly increased, and they are now able to change their food habits and improve nutrition. We were so afraid of price readjustments in the past that grain and oil had to be imported from abroad and the supply of meat, fish, poultry, eggs, and milk had to be rationed. Supply of non-staple foodstuffs on the markets has been improved over the last few years following appropriate price increases, and most localities now have abundant supplies. This is a promising result of making use of price levers.

Second, there is the problem of the prices of the means of production, in particular, energy and raw materials.

The prices of coal, oil, and other fuel in our country have been far below the international market prices. This is detrimental to stimulating production increases and thrift regarding expenses. Energy consumed for production of similar products was about 200 to 300 percent of that in the advanced countries. In order to solve the problem of a short energy supply and serious extravagance, we must gradually improve the prices of coal, oil, and other energy products to guarantee the continuous development of the national economy. The planned price of allocated coal has not been increased over the past few years since the price of coal was increased by 5 yuan per ton in 1979, but other methods have been adopted, such as coal produced in excess of quotas allowed to be sold with increased prices. The coalmines can also sell coal at negotiated prices when they fulfill their procurement tasks, and small coalmines which have not been allocated any procurement tasks can sell all their product at negotiated prices. This means that there are, in fact, various prices for coal and that the proportion of allocated coal has been decreasing gradually while the proportion of coal sold with higher prices and negotiated prices is gradually increasing. Allocated coal only accounted for 50 percent of the total coal consumption in 1984. Such methods have enabled the coal output to exceed state plans by an enormous amount. The tight coal supply situation improved in 1984 and the negotiated prices started to decrease (the price in Jiangsu was lowered from 160 to 100 yuan per ton).

However, multiple prices of coal should not be maintained for a long time. We must continue to adopt the policy of "integrating relaxation of control and regulation" for a certain period in future. Relaxation of control means expanding the scale of sales and purchases at negotiated prices, which means expanding the scope of market regulation. Regulation means increasing the planned prices in a scheduled way. We will gradually shorten the distance between allocated prices and negotiated prices by means of the method of integrating relaxation of control and regulation, gradually forming a unitary price. It is necessary for us to increase the prices of coal in the next few years so that the average profit rate of the coal industry will be close to the average profit rate of the entire industry. Our coal prices are still below the international market prices after the price increase, but if the prices are raised to a larger extent, we will only raise to a large extent the production costs of industrial products which consume more coal, leading to a price rise in these products. Coal is the "grain" for the industries, and coal prices seriously affect the production costs of an entire industry. When determining the extent of rise in the prices of coal, we must first enable the coal-consuming industries to adopt the measures of practicing conservation in coal consumption so that prices will not go up except for a small number of products. There is great potential for practicing conservation in coal consumption, however, economizing measures require certain investments which will take 2 or 3 years to recover. Thus, industries which consume an enormous amount of coal will encounter certain difficulties in the next 2 to 3 years, and the state will have to adopt methods to reduce taxation or give short-term subsidies (for 2 to 3 years) to help overcome difficulties. Our state can gradually get rid of the problems of insufficient energy when we obtain results from practicing conservation in coal consumption and increasing the prices to stimulate production.

At present, since the oil industry is yielding great profits, people do not see the need to increase the oil prices. However, oil prices need to be increased similar to coal prices. The current wastage of oil is more serious than coal. When power stations change from oil consumption to coal consumption, production costs rise. For the sake of encouraging all conservation and replacing oil with coal, the method of imposing taxation on oil consumption has been implemented. A small amount of oil is also sold at negotiated prices, which means raising the prices in a disguised form. Raising oil prices is of greater significance than raising coal prices. When the oil exporting countries raised oil prices to a very large extent in 1973, the Western countries faced a severe economic crisis, but this only forced the various countries to adopt oil conservation measures. Oil imports of many developed countries in the following few years decreased each year. Oil prices were then lowered in the 1980's when the supply changed from being insufficient to meet demands to being excessive. Our country's petrochemical works are obtaining great profits by relying on low prices of crude oil and they do not carry out intensive processing. There is rapid growth in the sales of transportation vehicles to the peasants. Although they use oil sold at negotiated prices, they still save much in transportation. In view of this, we can see that even if oil prices are raised by 100 percent, many trades could still afford the expense. The problem is that the fares of public vehicles are too low and there are already deficits. The problem has to be solved by a different method when oil prices are raised.

The short electricity supply situation at present is more serious than coal supply. Although the state has made enormous investments in building power stations, it will take 8 to 10 years to complete construction and thus the problem remains unsolved at present. Many rural industries currently obtain electricity by means of diesel generators. The cost of each unit (using oil sold at negotiated prices) is about 0.4 yuan. The wastage problem is serious. In view of this, we should encourage the localities to gather funds to run small-scale power plants and supply electricity at negotiated prices (production costs will be around 0.2 yuan if coal sold at negotiated price is used). Electricity supply has to be made through electrified wire netting. The price of electricity generated by the local power plants in the past was 0.04 yuan per unit when connected with the wire netting, but the price of electricity consumption rose to over 0.1 yuan when electricity was connected to the factories. This has greatly harmed the enthusiasm of the localities for running electricity plants with raised funds. In the future, the local power plants which are run with raised funds will be allowed to supply electricity at negotiated prices. The price of electricity will be the same when the electrified wire netting is connected as when electricity is connected to the factories. We expect development in the building of local power plants with raised funds by following this idea.

It is necessary to readjust the prices of the means of production such as steel products, timber, and cement in addition to energy products. Demand for steel products has been much greater than supply over the last few years, but the large-scale steel plants were still allowed to sell parts produced in excess of the procurement plans at negotiated prices. Small-scale steel plants which had not been allocated procurement tasks at all were allowed to sell all their products at negotiated prices. The present proportion of allocated steel

products to those sold at negotiated prices is 60 to 40 percent, and negotiated prices are 100 to 200 percent higher than the allocated prices. For the sake of ensuring production development, the state imported 12 million tons of steel products in 1984. The prices of imported steel products were much higher than the domestic planned prices. Initially, the imported steel products had to be sold to consumers at the domestic planned prices, which caused the foreign trade departments to lose a lot of money. Therefore, a certain portion of the imported steel products were allowed to be sold at negotiated prices later. It is proposed to change to a system of purchasing agent in the future. A small percentage of handling fees will be added to the imported prices. In this way there will be three different prices for steel products--planned prices, negotiated prices, and import prices. If sales and purchases at negotiated prices are prohibited, local factories which are not allocated steel products, in particular the rural and township factories, will have to cease production, as they will be unable to [word indistinct] the demands of the scattered customers, thus bringing about negative consequences. There are over 10,000 types of steel products, and planned prices are sometimes unduly high or unduly low; thus, an abnormal situation in which certain products accumulate and some are extremely marketable has been created. As a matter of fact, the price departments are unable to set appropriate prices for over 10,000 types of steel products and it is necessary to relax the management system, allowing prices to float in accordance with the situation of supply and demand, slightly raising the prices of products which are always out of stock, and lowering the prices of those which accumulated. By allowing the prices to float in this way, overall prices might rise slightly, but it will still be far lower than negotiated prices and import prices. In order to ensure steel products supply and stabilize the prices, the material departments are prepared to extensively build steel products exchange fairs in various large cities and iron and steel bases (this has been done in Shenyang and other places), selling these products at negotiated prices under the coordination of the materials departments. According to the press, a certain portion of steel products in Anshan municipality were resold at a profit margin of five times before the products left the factory, and then the prices were raised by 100 percent. The prices can be kept more stable if there are open exchange markets for steel products.

There is a considerable portion of timber and cement which are sold at negotiated prices. Presently, except for the northern forest area and the state-run tree farms, price management in the forest areas in the south has been relaxed and there are sales and purchase at negotiated prices. Due to the increasing demand for cement, there has been a rapid development in small-scale cement plants and the proportion of centralized allocation in accordance with planned prices is diminishing; about 75 percent of cement is now sold at negotiated prices. In light of this, it is necessary to gradually increase planned prices for timber and cement, while at the same time allowing negotiated prices. Under the present conditions, there are two prices (planned prices and negotiated prices) and two distribution systems (centralized procurement and marketing and procurement and marketing at negotiated prices) for the important means of production. This is the method which must be adopted at present in order to guarantee production development and market

supply. Simultaneously, in order to maintain basically stable prices, we must gradually increase the planned prices of these products and shorten the gap between planned prices and negotiated prices.

The fundamental method of solving the problem of a short supply of the means of production is to control the scale of capital construction and stimulate an increase in production and conservation by raising the prices. Although the planned prices are very low at present, the negotiated prices are very high. The proportion of sales and marketing at negotiated prices is increasing. This is, in fact, a price increase in a disguised form. In the future we must strictly control of scale of investment of fixed assets and simultaneously gradually increase the planned prices in order to stimulate production, suppress demand so as to achieve a relative balance between supply and demand and enable the negotiated prices to drop to a rational level, and finally, unite the two prices or draw the two prices closer to each other.

Third, there is the problem of reducing and cancelling the adverse linking of the procurement and marketing prices of grain and oil.

Over the last 5 years, the procurement prices of grain and oil have been consistently on the increase, while the marketing prices remained unchanged. The adverse linking of the procurement and marketing prices has become more and more serious. The state had also increased price subsidies during these years, creating a heavy financial burden. Present production of grain and oil has already exceeded the demand, but due to the adverse linking of the procurement and marketing prices, we are afraid that some speculators will purchase low-price grain and then resell it at a high price to the state. Thus, we still cannot abolish the system of supply in confined quantities, as we did with cotton cloth. The phenomenon of adverse linking of grain procurement and marketing prices first appeared in the early 1960's. In 1963, the state raised the price of resold grain in the rural areas to the procurement price; the marketing price of grain in the urban areas was raised in 1965, also equivalent to the procurement price. Simultaneously, the money obtained from the price increases was given as grain subsidies in wages. The difference between the procurement and the marketing price then was about 0.02 yuan per catty, and it was less difficult to readjust the prices. It is more difficult to do so now since the difference is 0.1 yuan. In light of this, the state has to adopt a very cautious attitude and give consideration to wage readjustments simultaneously in order to ensure that the workers will not suffer losses when the price of grain is raised.

The state has decided that the price of resold grain in the rural areas would be raised this year. The present situation is different from that in 1963, when the system of contracted responsibilities was implemented in the rural areas. The number of specialized households engaged in raising pigs and ducks and the number of people engaged in industrial and commercial activities in the rural areas has increased drastically, and their income has also increased remarkably. In addition, the market price of grain in most of the grain-producing areas is close to or even lower than the state procurement price (including the sale of that portion produced in excess of quotas and which has increased prices);

therefore, many rural people can stop eating resold grain in the future and shift to buying grain from the markets. There are now specialized households and villages in the rural areas which are also developing diversified production. In the wake of the development of a commodity economy in the rural areas, the number of rural people who need to obtain grain from the markets will increase enormously. Thus the system of centralized procurement and reselling of grain will no longer suit the present or the future situation. The practice of the state providing the rural areas with resold grain will possibly be replaced by the sale and purchase of grain in the markets.

The rise of the purchasing price of grain in the urban areas concerns the livelihood of the broad masses of urban people and should be carried out cautiously. This will be postponed a few years in order to maintain the relative stability of the market prices and benefit the restructuring of the national economy. The workers' wage system will be reformed this year and the wages of the workers will be increased, but when the bonus and subsidies given in the past are taken into consideration, the actual increase is not very significant. There must be a bigger growth of wages in order to increase the marketing prices of grain and oil. Similar to readjusting prices, wage readjustments can only be steadily advanced because strides too big will affect stability on the market.

Fourth, it is necessary to appropriately raise the standard of charges in order to develop the services industry.

The standard of charges for the services industry has been unduly low for a number of years in the past and the development of the service industry has been far from meeting the demands of the people's improved standard of living. Bath houses are an example. The price of coal has been raised a few times, but the bathing charge of 0.26 yuan has remained unchanged throughout the years. Thus, the bath houses are generally running at a deficit. Some of these bath houses are compensated by also providing hotel facilities, while some have shifted to other trades and some have converted to simply hotels. Thus, in the wake of population increases in the municipalities, the number of bath houses has decreased there are more and more occasions on which people line up to take a bath. Many organs and enterprises have solved the problem by running bath houses of their own. In fact, many organs and enterprises now give hygiene allowances. Even if the bath charges are raised by a small percentage, the hygiene allowance can generally cover the charges. However, most people keep the hygiene allowance and object to the increases in bath charges. Development of the present situation means more difficulties in bathing. Which method is better--allowing the charges of the service industry to be slightly raised to bring about development of the service industry and create conveniences for the people, or retaining the old practice of maintaining low charges, which causes the service industry to wither and causes difficulties in the people's lives? Of course the former method is better.

For numerous years in the past our country has adopted the policy of low wages and more employment opportunities. The standard of charges by the services industry has also been kept low because of low wages. The present exchange rate between Renminbi and U.S. dollars is 2.8 to 1. As far as hairdressing is

concerned, the charge for one hairdressing service in the United States is \$5 (excluding shampoo and the trimming of a beard), but it only costs 0.5 yuan in our country. In this case, \$1 is equivalent to 0.1 yuan. Thus we can see that the low service charges in our country are rare in the world. As mentioned above, it is necessary to appropriately raise the service charges in order to attain development in the service industry. The average wages of the workers at present has been increased by over 100 percent compared to 1952, and by 60 percent compared to 1956. The standard charges for the service industry should also be raised proportionally with the wages of the workers. Naturally, an increase in service charges cannot be rushed into headlong and needs overall arrangement. It must not lower the workers' standard of living. However, from a long-term angle, in the wake of the improvements of the people's standard of living, there will be a growing demand for the service industry. In order to speed up the development of the service industry, the standard charges for the service industry must be gradually increased. This is not only conducive to satisfying the people's demands, but also plays a vital role in providing more opportunities for employment.

#### Fifth, we must raise the rent for houses.

Our country's houses are still being allocated at present, and the rent is so low that it is unable to pay for the maintenance fees. In old China and in many capitalist countries and cities, the rent of the workers accounts for 30 percent of their total income, but it only accounts for 3 percent in our country at present. The rent subsidies are even greater than subsidies for grain and oil and the sum of the two is roughly equivalent to the total amount of wages. This means that half of the real wages of the workers are given to them and the other half is given without their knowledge. Their wages would be increased by 100 percent if the part given to them without their knowledge is added to the present wages.

There are many flaws in the system of low house rent. On the one hand, the state has to make an investment of over 10 billion yuan for constructing houses, which yields no return. The housing property industry and the construction industry are very large fields in the capitalist countries, and they make great profits. Our country's situation is the opposite: The construction and housing property fields have become consumption departments in which maintenance is totally dependent on state subsidies and which are unable to advance with their own efforts and do not possess any accumulation abilities. On the other hand, the low house rent is detrimental to the rational distribution of houses. The workers will occupy as many houses as possible because of the low rent; therefore, although many houses were built over the last few years, there were always great disputes over house allocation, and the sinister trend of seeking personal privileges via official authority and "doing things through connections" was widespread. In view of the long-term situation, it is necessary to sooner or later readjust the house rent just as we are going to do with prices.

Raising house rent to a level which can compensate for construction expenses and simultaneously give the workers, in the form of either allowances or wages, the increased state revenue gained from increased house rent can bring about

rapid development in the housing property industry and the construction industry and can faster satisfy the people's demand for housing without lowering their standard of living. The house rent in our country should not be raised as high as in the capitalist countries because the price of land in those places is very high and thus the price of houses and the rent are high as well. It is not necessary for our country to adopt a policy of high land prices. The normal house rent in our country should be calculated by multiplying the construction cost of the houses by the interest rate on fixed deposits. Thus, the house rent will roughly equal 15 to 20 percent of the total living expenses of the people in the urban areas. Even so, it will mean an increase of 400 to 500 percent over the present rent. Therefore, we must be particularly cautious and make meticulous plans for the methods and procedures of increasing the extent of rent and rent subsidies. The state can consider giving the workers housing subsidies in accordance with the average housing area of each household in the initial stage of raising the rent, and adding the rent subsidies to the wages in the subsequent wage readjustments. Due to the fact that the rise in house rent is calculated in accordance with the present per capita housing area and the house rent subsidies are calculated in accordance with the average housing area which one person should have, the rent of households which occupy an area above the standard should be higher than the rent subsidies. This also holds for households which occupy an area below the standard. The extent of the rent increase should be lower than the rent subsidies. The former will suffer losses while the latter will gain. Such changes are conducive to a rational distribution of houses, enabling a small number of people to turn in surplus housing and gradually easing the tight housing situation.

Some cities have now begun to merchandize houses and encourage the workers to purchase houses. However, it is very hard to succeed in merchandizing houses before raising the rent of houses, because renting houses is far more practical than buying them. When houses are sold by the state now, they are sold at a price which is half of the real value. Such prices cannot enable the housing property industry to make up for production costs or to build more houses based on its own income. We can only achieve merchandizing of houses by raising the house rent to an appropriate level.

The problem of price differences because of quality and district should also be solved apart from the above [word indistinct]. Currently there are sometimes no price differences for products of better quality or substandard quality. For some renown light industrial products, supply always falls shorts of demand in the markets and the prices are notarised in order to stimulate more production. Similar products of poor quality also have similar prices, which results in accumulation but production is, nevertheless, not reduced. For the purpose of production changing in accordance with changes in the people's daily demands, we must put an end to the system in which the prices of many commodities remain the same throughout several decades. Such a system stops the old commodities from being replaced with new ones for a considerable time and is unsable to suit the growing demands of the people in their daily life. In order to speed up the improvement of the quality of products and create more varieties of products, we must resolutely implement the principle of better prices for

better quality and lower prices for poor quality. Prices of new products which are welcomed by the consumers can be slightly raised and gradually lowered in the wake of expanded production until replaced by another new product. We can make bigger strides of reform in this area. Simultaneously, the price differences due to districts should also be appropriately enlarged. Under the past situation in which the Ministry of Commerce ran independent businesses, was wholly responsible for the profits and losses, and adopted the practice of eating from the same big pot, many commodities gradually reduced or even cancelled the price differences due to various regions, enabling the retail merchants to gain no profits at all or to even lose money by running such businesses. Thus they were reluctant to stock more goods. This situation has become a serious obstacle to an exchange of commodities between different areas and between urban and rural areas later when the commercial enterprises started to take responsibility for their own profits and losses. If we do not eliminate this obstacle and arrange for reasonable price differences according to various districts, we will not be able to achieve a smooth circulation of commodities.

In view of the above situation, the scope of our reform of the prices is very extensive. The objective of the reform is to coordinate economic relations in various respects in order to facilitate the structuring of the entire national economy, in particular the reform of the industrial structure and the product mix so that various departments of the national economy will develop proportionally and develop in a planned way in accordance with the demands of production modernization and improvement in the standard of living. This reform is a long process. We have only taken a few steps in the past 6 years, but they have been the most important steps, and we have already seen obvious results in production development and in improving the people's standard of living. There are still many difficulties and problems which await our solution on the road of advance. At present we can only point out the direction of advance but cannot determine the specific procedures for advance. The specific procedures will be gradually formulated in accordance with the specific situation in the future development of the national economy. We will be able to overcome any difficulties so long as our main direction is correct.

### III. Several Problems in Understanding of the Present Reform of the Price System

The understanding about many questions is very confusing in the present reform of the price system. We must unite our ideas and understanding in order to smoothly carry out the reform. The following questions are put forth for discussion in accordance with my personal experience.

#### /1. The relationship between stabilizing prices and developing production and improving the people's standard of living./

For a longtime we have treated stabilizing prices as the major policy in handling the people's standard of living. Many comrades have a misunderstanding arising from this. They treat the demand to stabilize prices as an absolute demand, holding that only by stabilizing prices can the people's living standard be improved and that it will be lowered when the prices are raised.

Our past experiences have proved that the people's standard of living is not determined by the prices but by the development of production. The people's standard of living is raised when production is raised. The extent of price increases for agricultural products has been quite large over the past 6 years, but as far as the peasants are concerned, this did not lower their standard of living. On the contrary, this was an important factor in improving their standard of living. However, as far as the workers are concerned, if their wages are not increased proportionally with the increased prices of agricultural products, their standard of living will definitely be lowered. If wages are raised proportionally and to an extent which is larger than the extent of price rises, the standard of living of the workers will not be lowered but improved amid price rises. Further observation tells us that if the prices of agricultural products are not raised, agricultural production will not be increased so rapidly, the workers will not be able to buy things even if they have money, and the standard of living will not be improved even if more wages are given to them.

Looking back at the initial years of the 1960's, the state had to adopt the methods of purchasing grain from peasants, centralized procurement and assigned procurement, and restricting the amount of supply for people in the urban areas, in order to ensure stable prices of the major consumer products due to a drop in industrial and agricultural production. After such methods were adopted, the prices of 18 major consumer products were stabilized, but the urban people could only buy 2 taels of pork each month per capita, and 6 feet of cotton cloth each year per capita. The rural people could only buy three feet of cotton cloth per capita each year (they had to go to the open markets for more). The stability of prices failed to stop the people's standard of living from being lowered. Industrial and agricultural production gradually grew after 5 years of readjustment, but due to the low prices of agricultural products, production was far from meeting the demands of the people in their daily life. Thus, the methods of purchasing grain from peasants, centralized procurement and assigned procurement, and restricting the amount of supply were still adopted, with the amount raised only to a small extent. Such a system could only ensure the stability of prices but could not bring about rapid development in production. Thus, improvement in the people's living standard was slow. Such a situation persisted until 1978. At that time, apart from people living in Beijing, Shanghai, and a few big cities which could be supplied with one to two catties of pork per head per month, residents of the majority of medium-size and small cities were only supplied with half a catty to one catty, and people in Shenyang City were only supplied with two taels. The supply of poultry, eggs, and fish was also short, and grain, oil, cotton cloth, and so on were supply in confined quantities. Such a situation in supply depended on enormous quantities of imported grain, oil, sugar, cotton, and so on. In view of this, we can see that only by maintaining the stability of prices and not using the price levers to speed up development of production are we unable to improve the people's living standard. Agricultural production has rapidly grown since 1979, when the prices of the agricultural products were raised to a large extent, this not only brought about an abundant supply of non-staple food on the domestic markets, but enabled our country to change from importing grain and cotton to exporting them. All of us can see that the peasants have benefited

from this and that workers in the cities have also gained benefits because of increased food supplies. Development of production will be faster in the future when the prices of non-staple foods will be gradually relaxed. In accordance with the extent of increase in production, the state will increase and readjust wages in a planned way and there will be greater improvements in the living standard of the workers.

For a long time we have treated stabilizing prices as the major or even the sole principle of the price work and have not understood that there is another more important task of price work--speeding up the development of production and gradually improving the people's standard of living. Looking back at the initial years of the 1960's when the national price committee was first established, we put forth two important missions of stabilizing prices and rationally readjusting prices at the first price meeting. Due to severe short supply of materials, we could only attach primary importance to stabilizing prices and had to put aside the rational readjustments for the time being. During the second and fourth price meetings in 1963 and 1965, due to increases in production, we were able to shift the focus of price work from stabilizing the prices to readjusting them and put forth the "5-year plan" for readjusting prices from 1966 to 1970. This decision of the price committee was seriously affected by the traditional ideas about "stabilizing prices." Thus it was necessary to unite ideas and understanding at each of the meetings. We must now stabilize prices and simultaneously readjust them. Similarly, there is ideological confusion during each price readjustment. We should understand that stabilizing prices is very important in reassuring the people, but we must also carry out propaganda and education to make people understand that improvement in the people's living standard is not determined by the stability of prices (prices were frozen for 10 years during the upheaval of the "Great Cultural Revolution" but the people's living standard did not improve at all during these 10 years) but by the development of production. If we adopt a similar method of readjusting the prices to speed up the development of production (in particular for products in short supply which are badly needed by the people), the state can market the commodities for which production has increased in a similar way to appropriately raising the consumption funds to improve the people's living standard and will not stock them in the warehouses until they rot. Price readjustments and the development of production over the last 6 years have fully proved that this is the most effective means to improve the people's living standard.

## /2. Settle economic relations in good order and eliminate suppressed price increases/

Prices of commodities in the capitalist countries are spontaneously regulated by the law of value and fluctuation of prices of various commodities is very frequent. However, the prices will not generally be raised if there is no inflation. Western scholars understand that price increases come with an increased amount of money in circulation. Thus they always call the rate of increase in the retail prices of commodities the "inflation rate." We already understood at the time of the war of resistance against Japan and the war of liberation that inflation naturally causes increases in commodity prices.

Since the establishment of New China, we have maintained stable prices by means of maintaining a balance in financial revenue and expenditure and controlling the issuance of money. During the period of the "Great Leap Forward" from 1958 to 1960, there were great financial deficits, production dropped, the issuance of currency increased by over 100 percent, prices could hardly be stabilized, and the prices of many products were raised. The state had to resort to the method of purchasing from peasants, centralized procurement and assigned procurement, and restricting the quantity of supply to maintain stable prices of the major consumer products. During the 3 years after the "Great Leap Forward" (1960 to 1962), the state raised by a large extent the procurement prices of grain and other agricultural products for the sake of meeting the people's daily needs, but the market prices of food remained unchanged in order to reassure the people. The procurement and marketing prices were adversely linked and state financial subsidies were used to maintain the stability of prices. Simultaneously, due to price increase for raw materials but prices of products not being allowed to rise, many state-run factories were running at a deficit and the subsidies for losses exceeded 10 billion yuan in 1962. The Western countries term the practice of using state subsidies to suppress price rise as "concealed inflation" or "suppressed inflation." To be more exact, it can be called a "concealed price rise" or a "suppressed price rise," meaning that prices should have been raised but are kept stable by means of state financial subsidies.

Suppressing price increases by means of financial subsidies can keep prices stable for a certain time, but this does not comply with the objective economic law (it violates the law of value) and may disturb economic relations. In the wake of the development of production and the incessant price increase of the agricultural products, the greater the adverse linking of procurement and marketing prices, the greater the amount of necessary financial subsidies. This develops sooner or later to an extent the state finance are unable to afford. The policy of purchasing agricultural products from peasants, and centralized and assigned procurement for the purpose of maintaining stable prices in fact affects the smooth development of production and is detrimental to improving the people's living standard. Therefore, we raised the retail grain and food prices in the rural areas in 1963 and in the urban areas in 1965 and turned the price subsidies into wages. The procurement prices of the agricultural products were increased by an even greater extent in 1979. For the sake of reassuring the workers, we only raised the marketing prices of meat, eggs, and so on. The amount of price increases was given back to them as wage subsidies. The prices of grain and oil remained unchanged. The situation of an adverse linking of the procurement and marketing prices was even more serious than in the initial years of the 1960's. The price subsidies had to be increased every year and had become a heavy financial burden. At present, besides grain and oil, vegetables (subsidies for Beijing amounted to 70 million yuan a year and the national subsidies about 600 million yuan) and coal for civilian use still require price subsidies. The adverse linking of the procurement and marketing prices not only intensifies financial burdens but also affects the free supply of grain and oil, obstructs exchanges between different regions (this has now been solved by the method of setting up markets where grain and oil can be sold and purchased at negotiated prices), and causes illegal trading of grain

coupons. All this is detrimental to coordinating economic relations. Thus, from a long-term angle, we must raise the market prices of grain and oil at an appropriate time and turn the price increases into the wages. Since the present difference between the procurement and marketing prices is much greater than that in the initial years of the 1960's, there are more difficulties in raising the prices. The state should give cautious consideration and carry this out in connection with the readjustment of the wages.

It has been mentioned above that besides the adverse linking of the procurement and marketing prices of grain, oil, and other products, the service industry and the residential housing supply also rely on state subsidies. State subsidies are used to maintain very low services charges and low rent. On the surface they appear to ease the people's standard of living, but in fact they not only add weight to the state's financial burden but also obstruct the development of the service industry and the construction industry, delaying the improvement to the people's living standard. These financial subsidies also disturb our economic accounting due to suppression of price increases. The profits and remuneration which should be obtained during the course of production and services cannot be materialized. On the other hand, half of the wages of the workers is paid by the state subsidies. These subsidies should have been added to the wages and treated as production costs, but now they are carried by the state and are turned into the profits of the enterprises. Thus, these suppressed price increases have disrupted our economic relations. In order to achieve a wholesome development of our country's socialist economy, we must readjust various prices and settle economic relations in good time. The prices of the above products and services charges were readjusted in Shenzhen last year. This was a bold experiment and I hope it succeeds. Otherwise, our state's price subsidies and rent subsidies will be turned into profits of enterprises run with joint Chinese and foreign capital or enterprises run solely with foreign capital, and a portion will be enjoyed by foreign merchants.

Such "suppressed inflation" was not only exclusively found in our state, it has happened in many socialist countries and the extent was even more serious. When the financial revenue is unable to afford the expenses, the state will have to raise by a large extent (by 200 to 300 percent) the price of certain important consumer products, and when wages cannot be simultaneously raised by such an extent, the standard of living of the people will be lowered temporarily. Western bourgeois economists hold that this is a natural consequence of the socialist system, but this is not true. Such a phenomenon did not take place in our country in the 1950's. It began to take place in the initial years of the 1960's but was promptly solved by means of readjusting the prices. It took place again after 1979. The state does not think that such a price system should be retained for a long time in the future (many comrades have treated this as a superiority of the socialist system in the past; this is wrong and is only a childish understanding of the socialist economy). The state is adopting measures in a planned way to gradually solve this problem. This is absolutely not a system which should be retained by the socialist economy. On the contrary, it should [word indistinct] gradually solved in the course of restructuring the national economy.

### /3. The fundamental measures to maintain the stability of prices/

Many comrades hold that the measure to maintain the stability of prices is to strengthen price management. As a matter of fact, historical experiences have fully shown that the fundamental reason for price increases is inflation. If there is serious inflation, prices naturally go up. The situation was similar to that between 1949 and March 1950. Although the prices of the 18 major consumer products were kept stable by means of strict management (supply in confined quantities) in the initial years of the 1960's, the prices in the market fairs could not be kept stable and the state was forced to sell products at high prices. The prices became more stable from 1950 to 1964 when inflation was eliminated. Thus we can see that the fundamental measure to maintain the stability of prices is to stop inflation and not merely to strengthen price management.

The major factor for the past two incidences of inflation was financial deficits and an increased issuance of currency. At present the banks are allowed to give credits for investment of fixed assets. However, expansion of bank credits can also cause inflation. Simultaneously, the enterprises now have changed from being under strict state control over wage distribution and being prohibited to give more for more work or give bonuses for more profits, to being able to readjust wages and bonuses in accordance with state regulations. This is good for enhancing the enthusiasm of both the enterprises and the workers. However, if management is not effective enough, it can also lead to expansion of the consumption fund. If the extent of growth of the wage fund exceeds the extent of growth of industrial and agricultural production, it will also lead to inflation. The combination of the expansion of the accumulation fund and the consumption fund will lead to a situation in which the total demand for social products exceeds the total supply. The supply of various products will fall short and prices can hardly be kept stable. If we use the method of price subsidies and supply in confined quantities to maintain stable prices, it will lead to "suppressed price rise" as mentioned above, which is detrimental to the development of production and to improving the people's lives.

These two kinds of expansion take place easily in the socialist countries. In the past, investment in capital construction was granted by the financial departments. The construction units did not have to calculate the economic returns of construction; they did not practice thrift in using the funds but were quite extravagant. Various departments and various regions always fought for projects and investment, and the actual investment amount always exceeded the state plans. If the state also one-sidedly pursues a fast pace of development in production and if the plans for the capital construction investment exceed the capacity of the national revenue, the expansion of the capital construction investment will become more serious. At present, capital construction investment must be repaid. At the same time, banks are allowed to give credit for investment in fixed assets. This more or less makes the construction units pay attention to economic returns. The leaders of the enterprises in fact do not undertake any investment risks. They will only be dismissed when they make mistakes in investment; they are not like responsible persons in the capitalist countries who will be forced to declare bankruptcy or commit suicide. Before

the Central Bank improved work in controlling the issuance of currency and adopted various measures to prevent credit expansion, various professional banks had faced keen competition in giving credits, which led to credit expansion. At present, the situation of confusing government functions with enterprises functions has not changed. The party and government organs in many places still force the banks to give more credit, which has become another important cause of credit expansion. In order to prevent an economic decline, the capitalist countries always adopt various measures to encourage investment. On the other hand, the socialist countries always sponsor excessive investment, termed by foreign economists as a "disease of investment hunger." This has already become a very common phenomenon and merits our attention.

Apart from excessive expansion of the accumulation funds (mainly the investment of fixed assets), excessive expansion of the consumption funds is also very likely to take place in socialist countries. In the past, state control over wages and bonuses was too tight, which hampered the initiative of the enterprises and the workers in developing production and yielding more profits. When the enterprises are given the decisionmaking right to adjust wages and bonuses, some enterprises in which the leadership group is more effective have given full play to the enthusiasm of the workers. They have obtained remarkable results in increasing production and cutting back on expenses, improving the quality of products, and opening up more marketing opportunities. As a result, the wages of the workers have increased and more is given to the state in taxation. However, there are some enterprises which, for the sake of pleasing the workers, increased wages and bonuses with the funds of production development. Some enterprises in which management is poor, which have not made profits, or which have had deficits even tried to win the workers' support by giving bonuses by means of selling production equipment or obtaining bank loans. This created expansion of the consumption funds. The interest of the proprietors and workers is contradictory in the capitalist countries. More wages and bonuses mean less profits for the proprietors. Such contradiction between the proprietors and the workers does not exist in the socialist countries. The relationship is planned and managed by the state, and if the management system is not good enough, leaders of certain enterprises might only seek to please the workers without giving any consideration to the [words indistinct] the enterprises and interests of the state. When the wages and bonuses will also be increased proportionally. When the enterprise is in a difficult position, they will ask for bank loans or state subsidies. They will be free from any losses even if the enterprise goes bankrupt. Therefore, when the enterprises are given the decisionmaking right to adjust wages and bonuses, it is necessary to adopt effective measures of supervision, awarding the leaders of enterprises who abide by the law and punishing those violate state laws and principles and infringe upon state interests. It is necessary to resolutely prevent consumption funds from growing to a degree beyond the growth of production.

When we lose control over the accumulation fund, we will be unable to provide a sufficient supply of the various means of production, and their prices will be forced to increase or be raised in a disguised form. The result of the price increase is that part of the investment in terms of currency will be offset by the increased prices, while the completion of the capital construction scale has not been increased. On the other hand, many projects are halted

pending materials, the construction period is delayed, and economic returns are lowered. Our country has had a short supply of the means of production for many years in the past, and in order to stabilize the prices of the means of production, the state had to adopt the method of centralized procurement and distribution of the means of production. When centralized procurement and distribution is unable to meet the demands of production and construction, the state has to allow procurement and marketing at negotiated prices, which means price increases in a disguised form. Thus, the fundamental method of stabilizing the prices of the means of production is not to strengthen price management, but to reduce the scale of capital construction. When the scale of capital construction was reduced in 1981, the short supply of the means of production was greatly eased. Production of mechanical products was greater than demand and sales had to be promoted everywhere. We should always bear these experiences in mind.

Our country's control over consumption funds has been relatively strict for a long time. The growth of the consumption fund is mainly accounted for by two factors: Increased income of the peasants due to the price increases of agricultural products, and an increase in the total wages of the workers. When the prices of agricultural products were raised by a large extent, in 1979, an obvious improvement in the peasants' purchasing power was seen. Simultaneously, the purchasing power of the urban residents was also increased when the state increased the wages of the workers, gave more bonuses, and provided jobs for youths awaiting employment. Although there has been rapid growth of the purchasing power over the last few years, there has been an even faster growth in the supply of consumer products. Many products could be supplied in unlimited quantities and there was even a buyers' market for certain products (such as textile products and garments). However, since the fourth quarter of last year, many enterprises have indiscriminately raised wages and issued bonuses, and the growth of the wage fund has exceeded the growth of industrial and agricultural production to a notable extent. The phenomena of rush purchases and indiscriminate price hikes appeared in the markets again. It is absolutely necessary now for the state to put an end to the sinister trend of indiscriminately raising prices. However, if social purchasing power exceeds the supply of commodities, people will still rush to purchase products even if prices are raised, and thus high prices can be maintained. This is not the fundamental method of maintaining stable prices. The fundamental method of stabilizing the prices of consumer products is to prohibit indiscriminate wage increase and indiscriminate distribution of bonuses, and to strive for a growth of the wage fund in the course of reforming wages which will not exceed the growth of industrial and agricultural production. Generally speaking, there is now an abundant supply of commodities on the markets. The prices can be kept stable as long as the measures for controlling the consumption fund are effective. At present, the high quality products become the targets of rush purchases because the workers have been given more bonuses. Some comrades only criticize the price hikes but do not criticize the indiscriminate distribution of bonuses, which is contradictory. We must oppose the indiscriminate distribution of bonuses for the purpose of stabilizing prices.

The fundamental method of stabilizing prices is to control the accumulation fund (in particular the investment of fixed assets) and the consumption fund, and to prevent excessive expansion, the sum of the accumulation fund and the consumption fund must be kept below the total amount of national revenue in order to maintain a balance between supply and demand of the means of production and the consumer products. Inflation will take place if the accumulation fund and the consumption fund have grown beyond control, and then prices will go up. Many of our party members are concerned about the people's interests and always hope that the income of both the workers and peasants will be rapidly increased; however, they do not understand that if the consumption fund exceeds the supply of the consumer goods, the prices of the consumer goods will rise, and finally, the excessive portion of the consumption fund will naturally be offset by the price increases. The people will not benefit from this but will be resentful instead. Thus, people should support the government in strictly controlling the extent of growth of the accumulation fund and the consumption fund if they are really concerned about the people's interests.

#### /4. Integrating relaxation of control and regulation is the necessary road to the reform of prices/

For a long time our country implementing the system of planned management over prices. All of us agree in theory that the planned prices should observe the law of value and should comply with value on the whole. There are several hundreds of thousands of various products throughout the country and there are at least several million different prices (there are different prices for different qualities and for different districts, and there are even price differences in different). Due to the incessant change in production costs, the prices need to be constantly readjusted as well. Thus it is impossible for the price organs to be solely responsible for setting the prices. Therefore, the state can only manage the prices of several hundred products (there will be several thousand prices if prices managed by the localities are included). Other small commodities should be allowed to be regulated by the market. Prices of small commodities which are regulated by the market are controlled by the law of value, and generally speaking, their market prices can automatically cope with value and with supply and demand. However, prices of large commodities for which prices are controlled by the state always deviate from the value because of untimely readjustments and also deviate from the supply and demand relationship. This not only affects the balance of supply and demand of various products, but also creates confusion in economic accounting and other economic relations. After accumulating experiences for numerous years, I realize that even if prices are controlled by planned management, the role of market regulation should be made use of to a certain extent.

In the past when we talked about planned prices coping with value, we always stressed the conscious use of the law of value and opposed the spontaneous role of the law of value. This was also an impractical opinion. Certain products (such as textile products and steel products) have tens of millions of varieties and patterns which are always replaced with new ones. We can only, at the most, set a standard price for such products, and cannot set various prices for the different sizes and patterns. Centralization of prices always

neglects differences in quality and hampers the renewal of old products. Many products have remained the same for several decades and they lose competitive ability on the international markets. They are also, unable to meet the growing demands of the people in their daily life.

We should formulate planned prices for simple products which are essential to production and daily life. So long as we carry out prompt readjustments to the planned prices, we will be able to give play to the role of regulation in production. Taking the agricultural products such as grain and cotton as an example, we assigned mandatory regulations to the communes and brigades in regard to the cultivation area of various crops in the past. This has seriously affected the development of production. When the production responsibility system of households contracting responsibility was implemented, the peasants selected crops to grow in light of local conditions. Under such a situation, we made use of the law of value to correctly readjust the prices, which not only greatly speeded up the development of agricultural production, but also ensured the proportional development of various crops in accordance with state demands. Nevertheless, we cannot rely solely on planned prices, but we also need market prices. This will enable us to coordinate surplus or short supplies on the market, apart from centralized procurement and distribution of the state, in order to satisfy the demands of the urban population and other needs. Recently, the grain and oil markets have been restored in Wuxi and Wuhu and other places where grain and oil are market at negotiated prices, and more than 20 provinces and cities throughout the country have turned up at the grain and oil markets to coordinate surplus and short supply. However, since we have overstressed reducing the differences in wealth and poverty between regions and reducing the differences in prices in the past, it is impossible now to carry out exchanges between regions as far as the grain and oil markets are concerned if we adhere to the planned prices. Trade in the grain and oil markets must be carried out at negotiated prices. The price of grain in the grain-selling regions will be slightly higher than the state procurement price, whereas the price of grain in the grain-producing regions will be slightly lower than the state procurement price. This will not only solve the question of a coordination of surplus and short supply between regions, but also solves the coordination between varieties of grain (rice, wheat, and other food grains, beans, and so on). This is obviously a good method to promote grain circulation. According to statistics of the Wuxi grain and oil market, the volume of negotiated sales (mainly run by municipal and county grain bureaus and a small number of rural collectives or individuals) is now roughly equivalent to the volume of centralized procurement and marketing. As far as the whole nation is concerned, the average price of negotiated sales is similar to the planned price. Naturally, this situation is only found when there is balanced supply and demand of grain or when supply is greater than demand. It has never been imagined in the past when grain supply always fell short of demand. If grain production and marketing can be kept consistent with a slight surplus in future, the extent of negotiated sales can be enlarged, and the supply of re-sold grain to the rural areas by the state will gradually be eliminated by negotiated sales.

The integration of planned procurement and marketing and procurement and marketing of grain at negotiated prices will be similarly applied in the supply of non-staple food (including vegetables). For many fresh products, market regulation will be accorded major priority. The state will launch contracted procurement in order to prevent drastic rises and drops in prices which infringe upon the interests of the peasants and the urban residents. When centralized allocation of cotton has been replaced with purchases by factories, cotton markets might emerge in certain cotton producing areas, coordinating state procurement and market regulation. When the policy of opening up markets for agricultural products has been implemented, there will be a more rapid development of agricultural production, market supplies will be more abundant, and the extent of market regulation will be appropriately enlarged. Due to centralized procurement and marketing in the past, the peasants were dissatisfied with low procurement prices while the urban residents were dissatisfied with high marketing prices, and the state had to spend a lot of money on granting subsidies. This situation of "three dissatisfactions" will possibly be eliminated later.

Textile products and food are the most important light industrial products. The system of planned price management was adopted in the past concerning the prices of textile products, but due to the innumerable varieties and patterns and many new products, the price departments were unable to control the prices. At present, the textile products and garment industry can fully meet the market demands. With the emergence of buyers' markets, due to keen competition, the prices will go up even if the state does not exercise control. Quality of the food industry varies to a large extent, and the state is unable to examine everything individually and set prices accordingly. The state now proposes better prices for better quality, but who is to assess the quality? Pricing departments lack the wherewithal to make such assessments; only the consumers are in a position to do so. Prices of products which are welcomed by the consumers can be slightly raised and vice versa. This certainly does not mean that the state is not going to carry out market control. The more open the markets, the stronger should be the market control. This does not imply that the state should expand the scope of centralizing prices, but the state must carry out inspections to check illegal activities of selling poor quality goods at high prices, cheating in weights, and speculative activities.

Centralized procurement and marketing of the means of production cannot be cancelled at present since supply still falls short of demand. The prices of many raw materials are too low and development of production is slow, which makes it unable to meet the demands of production and the construction units. Thus the state has implemented the policy of integrating a relaxation of control and regulation during the past few years and allowed sales at negotiated prices apart from centralized procurement and marketing. The extent of negotiated sales is likely to grow before the prices of raw materials are rationally readjusted. The difference between the central procurement price and the negotiated prices will be gradually reduced and will even be close to each other when the prices are rationally readjusted in the wake of development in production. But until then, negotiated sales cannot be abolished. One reason for this is that many small plants and small construction units in many areas

may not be included in the state allocation plans. They will still need procurement and marketing at negotiated prices to satisfy their demands. Another reason is that the state can make use of negotiated prices to assess the situation of supply and demand in the markets, and rely on its information to readjust the planned prices. Many small plants which are not included in the state plans still need to obtain information from the negotiated prices to decide the direction of the production development. When the big plants have been enlivened, they will need to readjust their production plans according to market demands after fulfilling the state production quotas, and the negotiated prices will provide them with valuable information in this respect.

The system of price management of the socialist countries needs to integrate planned management and market regulation. As long as supply of various products fall short of demand, and as far as certain major means of production and consumer products are concerned, it is necessary to attach major importance to market regulation. As for the majority of secondary and, in particular, the scattered produced means of production and consumer products, it is necessary to attach major importance to market regulation and the state must exercise necessary management. Under the situation where the scale of capital construction is controlled to a level where supply and demand of the means of production is balanced, and in order to better connect production and marketing, we will probably further relax price management and expand market regulation. The opinion that the means of production must be centrally managed and that two kinds of prices are strictly prohibited is not only impractical now, but is detrimental to the connection of production and marketing of various means of production.

CSO: 4006/861

NATIONAL POLICY AND ISSUES

Deregulation, Subsidizing Both Truly Necessary

Beijing BAN YUE TAN in Chinese No 12, 25 Jun 85 pp 22-23

[Article by Liu Wenxu [0491 2429 4872]: "Deregulating and Subsidizing, Both Truly Necessary"]

[Text] Presently, the overwhelming majority of provinces, municipalities and autonomous regions throughout the country have deregulated procurement and sales prices for pork and other fresh and live nonstaple foodstuffs one after the other, and at the same time granted the urban population certain price subsidies, to ensure that these measures will not cause any deterioration in the actual livelihood of the masses. Some have questioned the need for this redundancy of, on the one hand, relinquishing price controls and, on the other hand, granting subsidies. Why not have no price increases and no subsidies instead?

One consumer gave a good reply: "If someone in the 1970's would give me 1 jin of shelled peanuts, I would have to shower praises on him, because peanuts were so rare! At that time prices were stable, but there was no place you could buy peanuts. Now that price controls have been lifted, nobody takes peanuts as something of much value. It just means that things are handled here according to the law of value."

From a theoretical viewpoint, the law of value is the fundamental law of commodity production and exchange. If consciously applied, it will enable great economic progress; if deliberately or unintentionally violated, dire consequences will result. The major reason why we cannot achieve speedy developments in certain commodities is their irrational price structure. The prices of many commodities reflect neither their value nor the relationship between their supply and demand. This situation exists, for instance, in the inverted relationship between the procurement price for hog on the hoof and the sales price of pork. Observing the law of value would mean readjusting these irrational prices; where increases are necessary, prices must be increased, and where price reductions are necessary, prices must be reduced, so that price relations between various kinds of commodities will gradually become more rational. Immutably fixed and frozen prices will adversely affect the development of commodity production, and it would become impossible to invigorate the market.

Looking at procurement and sales prices for meat, poultry and eggs during the last few years, it is obviously not possible to promote the development of their production without deregulating their prices. Let us take the price of hog on he hoof as an example. Rural reform has resulted in a huge increase in grain production--31.2 percent growth in total yield from 1978 to 1984. However, during the same period, live hogs on hand increased less than 2 percent, resulting in the abnormal situation that there was an abundance of grain but a shortage of hogs. During the same period, the rising standard of living was accompanied by an increase in per capita annual consumption of pork in urban and rural areas, from an average of 15 jin in 1978 to over 25 jin in 1984--an increase of 67 percent, constituting a conspicuous contradiction indeed between supply and demand of pork. Especially since the winter of last year, the area where limits were set on pork supply grew wider and wider.

There are a number of reasons for the slow development of hog production, but the main reason is the low procurement price, the irrational difference between grain and hog prices and the small profits for the peasants from raising pigs. In some places it was more profitable to sell grain outright, rather than using grain to raise pigs. Prices were fixed too rigidly and could not respond promptly to market changes in supply and demand. Although the state instituted price subsidies for the departments involved in this trade, the subsidies were not effective in promoting the production of live hogs.

Starting this year, the state tasks of distribution and procurement of hogs have been abolished in one district after another, prices for hogs were freed from controls and although time has been short, results have already become apparent. According to statistics covering 203 counties in 12 provinces, the average increase of hogs raised in each county during the first quarter of this year was 8,000 more than during the corresponding period last year. In many places the price for piglets has now gone up, indicating an enthusiasm among the peasants for raising pigs,

Looking at the urban areas, we see that there is now much more fresh meat in the markets, and the masses can easily buy pork at any time.

One fundamental principle in implementing price reform is that we want to ensure that there will be no decline in the actual living conditions of our large urban population. Prior to relinquishing price controls for hogs, the state granted a subsidy to the departments involved in the trade, which was actually tantamount to a subsidy to the consumers. Practical experience has proven that this method of granting subsidies was not effective in promoting production and in guiding the consumers. As to the consumers, those who ate much meat enjoyed a larger indirect benefit from the subsidy, those who ate little meat enjoyed little benefit from the subsidy, but if we now give the subsidy directly to the consumers, we overcome the mentioned shortcoming. The deregulation of procurement and sales prices for meat, poultry and eggs is not a mere transfer of money from this pocket to that pocket, but is an organic part of the reform of the entire price structure and is bound to promote production and invigorate the market. The relinquishing of price controls together with the granting of subsidies is an absolute necessity.

9808

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NATIONAL POLICY AND ISSUES

PRC TO PUSH REFORM OF STATE-RUN SMALL BUSINESSES

HK150632 Beijing CHINA DAILY in English 15 Aug 85 p 1

[By staff reporter Chen Guanfeng]

[Text] China will resolutely push on with its reform of state-run small businesses in spite of the ideological and management problems that have cropped up so far, the Ministry of Commerce told CHINA DAILY yesterday.

The reform, launched by the State Council last year, covers mainly state-run enterprises with annual profits under 200,000 yuan, including small general goods stores, groceries, restaurants, snack bars, hotels, bath houses, tailors, barber shops, repair shops, grain shops, booths and stalls.

And recently Beijing's municipal government encouraged employees to become shareholders in their businesses.

Ownership of these enterprises is being reorganized in three ways: some are being contracted to collectives while the state retains ownership; some are being leased to individuals or groups; and some are being handed over entirely to collectives.

Up to now, about 55,000 such enterprises have undergone the change in management, accounting for nearly 70 percent of such businesses in the country. Nearly 4,000 of them have been leased out to individuals or groups.

In Beijing, all of the 4,000 state-run small businesses will be reorganized by the end of this year.

In the future, "the only state shops are likely to be large and medium-size enterprises," an official of the Ministry of Commerce said.

According to the official, such changes in the management system have proved popular among customers and employees, because they encourage better service and result in larger incomes.

The state and the enterprises also benefit from the reorganization. A recent survey of 1,430 enterprises in Shanxi Province, which have undergone reform, revealed a 36.7 percent increase in business turnover, a 40.7 percent increase in profit, a 23.7 percent increase in taxes paid to the state, and a 72.3 percent increase in the income of employees.

Despite these encouraging results, some people frown on the reform, fearing that the transformation is a step backwards for the country's socialist system. Some shareholders are also afraid of being labelled as capitalists.

Also, during the process, some enterprises have distributed all their profits instead of devoting some funds to investment in the business and the public welfare of their employees. Some enterprises even changed their trade without permission in order to make larger profits, further weakening the country's service industry.

To improve the situation, the official said, the Ministry of Commerce is working on new rules on tax, finance, pricing, and labour management of these enterprises, and a national association is under consideration to provide unified supervision and guidance.

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NATIONAL POLICY AND ISSUES

IMPORTED CARS IN HAINAN ISLAND TAKEN OVER

OW041237 Beijing XINHUA in English 1151 GMT 4 Aug 85

[Text] Beijing, 4 Aug (XINHUA)--Empowered by the State Council, the State Bureau of Materials and Equipment has taken over 57,000 motor vehicles imported by some officials on Hainan Island for making high profits.

A leading member in charge of the work from the bureau said among the motor vehicles already taken over, 45,000 had been sold at normal prices by the end of last month.

From 1 January 1984 to 5 March, of this year, a number of high-ranking officials on Hainan Island approved in all the import of 89,000 motor vehicles, 2,860,000 TV sets, 252,000 video recorders and 122,000 motorcycles. Many of these goods were sold illegally at a big profit.

The import scandal was made public on 31 July, this year, following a government investigation. Some officials, including head of the Hainan People's Government, were dismissed.

The work on taking over the Hainan imported motor vehicles began last March.

The departments concerned predicted that all the imported motor vehicles are expected to be sold out before 1 October.

CSO: 4020/325

PROVINCIAL AFFAIRS

XINJIANG MINORITY NATIONALITY PEOPLE BOOST PRODUCTION

OW110816 Beijing XINHUA in English 0718 GMT 11 Aug 85

[Excerpts] Urumqi, 11 Aug (XINHUA)--The policy of encouraging peasants and herdsmen to expand commodity production has opened a new source for minority nationality people to achieve prosperity, said a Xibe national peasant in northwestern Xinjiang.

Ten percent or 150,000 of Xinjiang's rural households now specialize in crop cultivation, livestock breeding, processing and services, said an official of the Regional Administration for Industry and Commerce.

Among them, 600,000 families are engaged solely in growing crops, and their per-hectare output usually doubles that of ordinary peasants.

"Farmland is being transferred to skilled tillers," the official said. This has made it possible for more and more peasants to switch over to other lines of production, such as mining gold, coal and jade, growing melons, fruit trees and medicinal herbs, breeding pigs, sheep, deer, bees and fish, and processing farm produce.

The past few years saw a rapid growth of township-run factories in Xinjiang, the official said. There are now 8,370 such factories in agricultural and pastoral areas. They employ more than 136,000 people, 90 percent of whom are people of minority nationalities.

Many minority nationality people have quit farming and livestock breeding to take up business to meet the rising demand. They handle such popular items as household electrical appliances, woollen textiles, enriched food, jewelry, stationery, sports goods and arts and crafts.

Self-employed businesses are encouraged by the government to supplement state-run shops and rural supply and marketing cooperatives. "State-run services are inadequate," the official

explained, "because this vast yet sparsely-populated region is studded with grasslands, oases, deserts and high mountains."

Individual traders enjoy preferential treatment. In outlying and economically underdeveloped counties, they are free from business taxes and are aided in bank loans and goods supplies.

Even Kazak, Kirgiz, Tajik and Mongolian herdsmen, who have not the tradition of doing business, are now entering into trade.

Xinjiang now has 144,000 self-employed business households, 36 times the 1978 figure, said the official of the Regional Administration for Industry and Commerce. More than 208,000 people are employed, a 40-fold increase over 1978.

CSO: 4020/325

PROVINCIAL AFFAIRS

OFFICIAL CALLS FOR STRENGTHENING PASTORAL AREA WORK

SK160453 Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 14 Aug 85

[Excerpt] On the morning of 14 August, at the regional meeting on the work of pastoral areas, Tian Congming, deputy secretary of the regional CPC Committee, stressed: Leaders at all levels and all pertinent departments must do a more vigorous job in leading and supporting the pastoral areas to develop the commodity production more vigorously than they do in leading suburban and rural areas, in order to enable herdsmen to continually increase their income and become prosperous through hard work.

Comrade Tian Congming pointed out: At present, in the work for pastoral areas, there are two new questions which merit our high attention and should be solved through conscientious study. First, in the course of developing the commodity production, income of herdsmen increased by a margin smaller than that of peasants. Second, the relevant state departments and the provinces and regions with forests have increasingly paid more attention to the economic exchanges with pastoral areas, including selling grain to pastoral areas, and have purchased increasingly large amount of livestock products and animals from pastoral areas. We should expeditiously understand and grasp this new change, give different guidances in line with the specific situations of various localities, further invigorate the economy in pastoral areas, and strive to make the income of herdsmen increase by the same margin as that of peasants.

Comrade Tian Congming analyzed the current reasons why the economy in pastoral areas lags behind that in rural areas. He said: In the link of changing products to commodities, pastoral areas have encountered with more restrictions than rural areas in terms of transportation and circulation. In the link of reselling the products which have undergone a simple processing, in order to increase income, pastoral areas have poorer conditions than rural areas. Many places in pastoral areas now lack electricity services, talented people, technologies, and information. Getting to the root of the matter, the problem is the shortage of talented people. Pastoral areas are inferior to rural areas in terms of the number of managerial and technical talents.

Since the convocation of the regional conference on the work of pastoral areas last year, on the basis of summing up the experiences gained in the past several years in linking up duties, rights, and profits, paying equal attention to manpower, grassland, and animals, and thoroughly breaking with the practice of eating from the same big pot prevailing in the relations of herdsmen to their animals and in those of animals to grassland, we have raised the issue of linking up the production and of processing and marketing in pastoral areas, and have emphatically stressed that the work in pastoral areas bears on the whole situation of the work in the region. Based on this viewpoint, we have begun to adopt some special policies and measures to strengthen the work in pastoral areas and accelerate the construction of pastoral areas. For instance, we have encouraged large and medium-sized cities, plants, mines and enterprises to cooperate with pastoral areas to develop the natural resources of pastoral areas, and have encouraged and attracted teachers of middle and primary schools and scientific, technical, and public health personnel to give long-term or short-term services in pastoral areas. Practice proves that these decisions are correct and are supported by herdsmen. Thus they should be upheld continually. We should also constantly sum up experiences in this regard in order to score still greater achievements in this work.

CSO: 4006/875

PROVINCIAL AFFAIRS

YUNNAN PLANNING CHIEF ON ACHIEVEMENTS, TASKS

HK100255 Kunming Yunnan Provincial Service in Mandarin 1100 GMT 9 Aug 85

[Excerpts] Last year Yunnan fulfilled one year ahead of schedule the targets for the Sixth 5-Year Plan and accomplished the goals of endeavor set by the second session of the sixth provincial people's congress. This year's draft national economic plan has already been executed for more than half a year. The province's economy has maintained a good momentum of sustained development. This was stated by Provincial Planning Commission Director Zhong Qiqing in his report to the third session of the third provincial people's congress.

He said: In 1984 the province's total industrial and agricultural output value was 18.31 billion yuan, a rise of 15.4 percent over 1983. The draft plan for 1985 calls for total output value of 19.63 billion yuan, a rise of 7.2 percent over 1984. This should include output value of 8.53 billion yuan for agriculture, including village-run industry, a rise of 6 percent; and 11.1 billion yuan for industry, a rise of 8.2 percent. This is a plan that leaves a margin. It will be overfulfilled.

He said: The development of the province's national economy this year is good. In the next five months, while persisting in reforms, opening up, and invigorating the economy, we must get a good grasp of fulfilling the year's economic and social development plan. We must strengthen leadership over economic work, conduct penetrating investigation and study, and promptly discover and solve problems.

We must pay still more attention to focusing on fulfilling items in the plan which are weak links. First, we must grasp grain production. Second, we must grasp production and supply of raw materials in short supply.

Zhong Qiqing stressed at the conclusion of his report: Although the market and price problems that have currently appeared in economic life are problems that have arisen amid economic development and side-currents on the advance of the economic reforms, we must pay very great attention to them. He said: In the next five months, we must base our work on strengthening macroeconomic control and guidance and take steps to withdraw currency from circulation and control the amount of currency in circulation.

PROVINCIAL AFFAIRS

YUNNAN CONGRESS HEARS REPORT ON FISCAL WORK

HK100257 Kunming Yunnan Provincial Service in Mandarin 1100 GMT 9 Aug 85

[Excerpts] The province's financial situation in 1984 was encouraging. The local financial budget was overfulfilled. A good situation was maintained in revenue and expenditure in the first seven months of this year. This was stated by Zhao Hua, director of the provincial finance department, in his report to the third session of the sixth provincial people's congress.

Zhao Hua said: Last year's revenue was 1.922 billion yuan, a rise of 17.4 percent over 1983. The provincial government's demand for revenue to exceed 1.9 billion yuan was met. Expenditures amounted to 3.077 billion yuan, an increase of 27.3 percent over 1983. The growth in expenditures speeded up, and the situation of excessive surpluses seen in recent years was initially reversed.

Zhao Hua pointed out: The good situation in revenue and expenditure in 1984 was achieved on the basis of economic readjustment and reform. However a number of problems also exist on the way ahead. For instance, consumption funds have grown too fast, and some new unhealthy trends have arisen in economic life. We must pay attention to overcoming these in our future work.

Zhao Hua said in his report: On the basis of positive, steady, and rational balancing, after making forecasts and exchanging views with various places, the budget for 1985 calls for local revenue of 2 billion yuan, an increase of 4 percent over the final figure for last year. Expenditures under various headings show increases over last year, except for a few items where expenditures has been reduced as a result of structural reform.

Zhao Hua pointed out: In order to fulfill and overfulfill the province's fiscal and budgetary tasks for 1985, we must continue to do a good job in reforming the economic management structure. We must further control the scale of investment in fixed assets and the growth of consumption funds, and economize in administrative expenditures. We must promote comprehensive balance and bring into full play the results of social capital. We must strengthen macroeconomic control and fiscal supervision, and strictly observe fiscal and economic discipline.

PROVINCIAL AFFAIRS

JIANGXI HOLDS ECONOMIC, SOCIAL DEVELOPMENT MEETING

OW152042 Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 13 Aug 85

[Excerpts] According to our reporter (Li Ling), the provincial People's Government convened a meeting of prefectural commissioners and city mayors from 9 to 13 August in Nanchang. The central theme of the meeting was how to implement the guidelines of the Eighth Provincial CPC Congress and the Third Session of the Sixth Provincial People's Congress. The meeting also analyzed the economic situation, unified the comrades' thinking and understanding, and planned for the future work to further implement the policies of reform and opening to the outside world and to ensure the smooth fulfillment of this year's tasks of economic and social development.

Governor Ni Xiance presided over and addressed the meeting. Others attending the meeting were Vice Governors Jiang Zhuping, Jiang Jiaming, (Sun Xiyue), and (Chen Guisun); advisers to the provincial government (Xu Shaolin) and Fang Qian; as well as various prefectural commissioners, city mayors, and responsible comrades from the provincial departments concerned.

The meeting pointed out: Since the beginning of this year, the economy of our province has shown sustained, steady, and harmonious development. All economic sectors have demonstrated a trend of growth. The gross value of industrial production from January to July reached 9.39 billion yuan with a growth rate faster than the national average. With regard to the main norms for economic benefits, the increase scored by our province also surpassed the average increase for the whole country. As of the end of July, the province's revenue was 300 million yuan more than the corresponding period of last year. In rural areas, remarkable progress has been made in adjusting the production structure, and the commodity economy has developed.

The meeting further pointed out: Now our tasks of reform, opening to the outside world, and enlivening the economy are all in a crucial stage. New circumstances and problems have appeared in our economic life. On major issues, we should achieve unity in understanding on the basis of the guidelines established by the central authorities and the actual situation of our province in order to consolidate and develop our excellent situation.

The meeting stressed that developing our province's economy at a speed slightly faster than the national average is a correct principle that must be followed.

The meeting pointed out: In the coming five months, continued efforts should be exerted to grasp the two major tasks--the task of reform and the task of opening to the outside world--and develop our province's economy in a sustained, steady, and harmonious way. While raising the economic results of our work, we should strive to achieve the targets of making this year's economic growth speed slightly faster than the national average, attaining a double-digit percentage of economic growth, and scoring an annual financial revenue 400 million yuan more than last year. In rural areas, we should continue to place emphasis on developing diversified operations and village and town industries and try to increase the proportion of the secondary and tertiary industries. In cities, we should take advantage of the current favorable conditions of the high speed and good economic results of industrial development to further adjust the internal structure of our industrial production.

Liu Fangren, deputy secretary of the provincial CPC Committee, delivered a speech before the close of the meeting. He said: in order to fulfill the general task and achieve the general objective set by the 12th CPC National Congress, to invigorate Jiangxi's economy as early as possible, and to further rationalize the distribution of the productive forces in our country for the sake of better economic results, it is essential to make unremitting efforts to develop our province's economy at a speed slightly faster than the national average.

He urged that persistent efforts be made for the work of reform, opening to the outside world, and enlivening the province's economy, and that attention be paid to correctly handling the contradictions and problems that have arisen under the new circumstances. He added: While engaging in reform and construction, we should strengthen our ideological and political work, earnestly grasp the education in lofty ideals and discipline, improve the work of various government organs, raise their work efficiency, and ensure that they really serve the needs of grass-roots units and enterprises. In particular, efforts should be made to strengthen the construction work in old revolutionary base areas so as to meet the demands set by the Eighth Provincial CPC Congress.

CSO: 4006/875

PROVINCIAL AFFAIRS

HEBEI ECONOMIC, TECHNOLOGICAL COOPERATION MEETING OPENS

SK020900 Shijiazhuang HEBEI RIBAO in Chinese 8 Jul 85 p 1

[Text] The Hebei Provincial economic and technological cooperative invitation meeting opened in Shijiazhuang today.

Attending this grand meeting were some 1,400 persons, including leading comrades of the relevant departments and commission of the State Council, delegations from 27 provinces, cities, and autonomous regions, scientific research units, colleges and universities, and the representatives of our province. The State Economic and Planning Commissions sent a congratulatory letter and a congratulatory message respectively to the meeting. Some 300 economic and technological cooperative items were provided for selection and trade talks at the meeting.

Governor Zhang Shuguang spoke at the meeting. He pointed out: Generally, the guiding ideology of this provincial economic and technological cooperative invitation meeting is to open the province to the outside world more boldly, open the door of Hebei Province wider, vigorously develop and establish closer economic relations with the fraternal provinces, cities, and autonomous regions, and advance economic and technological cooperation to a new stage. Under the guidance of the state plans, we should place the emphasis on improving economic results and strive our best to conclude various economic and technological cooperative agreements and to carry out transactions on some cooperative items as well as the trading of commodities and materials in line with the principle of mutual benefit and common development in order to promote common economic development and prosperity between our province and the other parties.

In his speech Zhang Shuguang also referred to our province's present situation in natural resources and industrial and agricultural production as well as our province's preferential terms for economic and technological cooperation. He said: At present and in the near future, we would like to warmly welcome the various fraternal provinces, cities, and autonomous regions to come to our province to jointly develop the planting and breeding industries, the processing the production of energy and raw materials, inland communications, and building of ports, sea fleets and aviation undertakings.

The congratulatory letter and message of the State Economic and Planning Commissions pointed out that developing lateral economic relations and strengthening economic and technological cooperation are new things emerging in China's economic development. They are a major step and an important form of implementing the policy on opening to the outside world and invigorating the economy, one of the important aspects of economic structural reform, and a great breakthrough in the past economic mode. Hebei Province has achieved gratifying success in this aspect and has made a good beginning. We hope that Hebei Province, in the course of reform and opening to the outside world, will further develop lateral economic ties and expand domestic economic and technological cooperation in line with the principle of making good use of one's strong points while steering away from the weak ones and jointly develop various forms of economic ties on a mutually beneficial basis.

CSO: 4006/875

PROVINCIAL AFFAIRS

SHANDONG PROVINCIAL COMMERCIAL REFORM MEETING OPENS

SK160410 Jinan Shandong Provincial Service in Mandarin 2300 GMT 14 Aug 85

[Excerpts] The five-day provincial meeting to exchange experiences in commercial reform opened in Jinan on 14 August.

During the meeting, Li Changan, deputy secretary of the provincial CPC Committee and governor, delivered a speech. He called on the governors at all levels and the various commercial departments to foster the viewpoint of large-scale commerce and exert joint efforts to organize and manage the socialist unified markets well. He said: It is necessary to deeply carry out reform of the circulation system, to further invigorate the circulation channels, and to promote a brisk market.

Comrade Li Changan stressed: Governments at all levels, all comrades in charge of commercial work, the functional departments in charge of circulation, and all units engaged in commodity exchange should foster the viewpoint of large-scale commerce and exert joint efforts to organize and manage the socialist unified markets well and to promote a benign cycle of the social reproduction. All units engaged in social commodity exchange should come out from the small circles of regions, trades, and departments. The guidelines of our professional work should be first of all, conducive to the coordinated development of the state, collective, and individual commerce. We should pay attention to displaying the favorable conditions of the state commercial units as well as the role for the collective and individual commercial units. Second, making overall plans and all-round arrangements for the urban and rural markets is conducive to invigorating commodity exchange in the urban and rural areas. Third, we should develop commerce to gear to the needs of the province as well as the whole country. We welcome the various provinces to ship their products to Shandong and strive to sell our products to all over the country. Fourth, we should give dual consideration to both the domestic and foreign trades, and make proper arrangements for domestic sales and exports.

Comrade Li Changan pointed out: It is necessary to deeply reform the circulation system. First, we should persist in separating the functions of the government and business organs and realistically give the operational and management powers to enterprises. Second, we should break with the

small circle of the regional economy and vigorously develop the lateral economic ties. Third, we should strive to expand the operational and service spheres on the premise of making our own professions and trades successful, and should allow enterprises to develop their own trades while diversifying the economy and to carry out purchases and sales in a vigorous and flexible manner. We should give services in the course of production and sales and vigorously develop the various services which make things convenient for the people's livelihood. Fourth, we should persist in a socialist orientation. In the course of reform and invigorating the economy, all businessmen should submit themselves to the macroeconomic management and consciously observe the state laws and policies.

Comrade Li Changan pointed out: In carrying out commercial work, we should adhere to the principle of serving production and the people's livelihood, make arrangements for the brisk autumn markets, and ensure the supply of meat, eggs, vegetables, poultry, aquatic products, fruits, and manufactured goods for daily use during the National Day, the Autumn Festival, the New Year, the Spring Festival, and other major traditional festivals. Such work should be done better than the previous years.

CSO: 4006/875

PROVINCIAL AFFAIRS

YUNNAN GOVERNOR ON CURBING UNHEALTHY TRENDS

HK100201 Kunming Yunnan Provincial Service in Mandarin 0400 GMT 9 Aug 85

[Excerpts] In part three of his government work report at the third session of the Sixth Provincial People's Congress, Governor Pu Chaozhu spoke on strengthening leadership to ensure the smooth progress of reform. He said that the following tasks must be grasped well: 1) Seriously step up ideological and political work, focusing on education in ideals and discipline. 2) Strengthen macro controls and promote comprehensive balance. 3) Take decisive steps to resolutely curb new unhealthy trends. 4) Get a good grasp of production and circulation and make good arrangements for the markets and people's daily life. 5) Strengthen the building of the legal system and strive for a further turn for the better in social order. 6) Improve work style and provide meticulous guidance.

He pointed out: The new unhealthy trends of various types that have currently emerged in the excellent situation are expressed in concentrated form in the practice of pursuing the interests of small cliques and individuals by seizing the chance of reform and acting under the pretext of reform; failure to carry out the central policies and principles, and overtly agreeing with them but covertly opposing them; and failure to enforce orders and prohibitions. These problems are linked to weak ideals and slack discipline.

We must implement the instructions of Comrades Xiaoping and Chen Yun and step up the building of spiritual civilization while building material civilization. We must carry out appropriate ideological and political work, and conduct education for the cadres in upholding the four basic principles, establishing the communist ideals, and observing revolutionary discipline. We must stimulate people to dedicate themselves with soaring revolutionary enthusiasm to the great cause of building the border regions and enriching the people.

Governor Pu Chaozhu said: In order to more effectively resist unhealthy trends and promote and ensure the healthy development of reform, the provincial authorities recently issued a document on a number of policy regulations regarding the correction of unhealthy trends. We must seriously implement this document.

After drawing attention to a number of policy demarcation lines in correction of unhealthy trends, he demanded that the auditing, fiscal, tax, prices, and industrial and commercial administrative departments do their work thoroughly well in the spirit of being highly responsible to the party and people, and fully play their functional role in the struggle against unhealthy trends.

CSO: 4006/875

PROVINCIAL AFFAIRS

XINHUA ON UPSURGE IN XIZANG BUSINESSES

OW051814 Beijing XINHUA in English 1443 GMT 5 Aug 85

[Excerpts] Lhasa, 5 Aug (XINHUA)--When she arrives at the Lhasa airport with heavy bags on her back, the delicate Tibetan woman always feels excited by her purchasing tour and her thriving business.

Cangmulha attributes her success to the new policies implemented after a symposium on Tibet held in Beijing in March 1984, which decided to encourage private business as a bid to invigorate markets and quicken economic development in Tibet.

As a result, private and collective businesses have boomed as the main economic forms in Tibet.

By the end of 1984, the number of private businesses in the region reached 23,000, about six times more than that of the previous year.

They are mainly in the commerce, handicrafts, transport and service sectors.

The upsurge of private business has not only benefited those working in the cash economy, but brought convenience to 1.9 million Tibetans scattered in the highland area of 1.2 million sq km.

Previously, peasants and herdsmen in the remote parts of Tibet found it very difficult to sell their products in order to buy daily necessities. But now the problem has been alleviated as commodity exchange has been promoted.

According to Ding Kewen, chief of the region's Commercial and Industrial Administration Bureau, Tibet now has about 80 free markets in addition to various trade fairs held in rural areas during Tibetan festivals, providing more opportunities for private businesses.

about 5,000 kinds of commodities were sold in these markets in 1984, bringing the total trade volume to 230 million yuan, compared with 100 million yuan in 1983.

Ding said that those selling agricultural or sideline products are exempted from tax until 1990, in an attempt to bring more individuals into the trade.

Yet despite the incentives, private businesses feel challenged by growing competition, as more enterprises emerge and more people flood into Tibet from other parts of China.

About 5,000 private and collective corporations came to Tibet to open their businesses in 1984: and more are coming, encouraged by Tibet's open policy. In Lhasa alone, about 1,700 such businesses were added in the first six months of this year.

"I think most of the Tibetan businesses will survive the competition if they strive to learn its rules," said Ding Kewen.

Ding's optimism is shared by many individual entrepreneurs, who see the competition also as an opportunity for them to improve their products and service, and to gain experience for the even more competitive future.

CSO: 4020/325

PROVINCIAL AFFAIRS

JILIN PLANS TO EXPLOIT GRAIN, TIMBER, OTHER RESOURCES

HK110155 Beijing CHINA DAILY in English 11 Aug 85 p 2

[CHINA DAILY Editor's note: For two weeks our staff reporter, Lao De, has travelled 800 miles in the northeast province of Jilin with a group of Hong Kong and Macao journalists. The trip covered seven cities and the famous natural reserve in the Changbaishan Mountains and the City of Tumen bordering Korea [end editor's note]]

[By staff reporter Lao De]

[Text] Jilin Province in northeast China is making a concerted effort to draw investments and expertise from abroad and elsewhere in China to fully develop its rich agricultural, mineral and industrial resources.

Governor Gao Deshou said that grain and timber resources are the most ripe for development.

Last year, grain output--mostly corn and soybeans--reached 16.3 million tons, about 6.3 million tons more than the province can consume.

The grain surplus has become a problem for the province. Gao said that help is needed to develop the animal feed and food processing industries.

The excess grain also has stimulated output of meat, eggs and milk. Already, 16 percent of the rural population is engaged in making milk powder and canned foods, but that is still not enough to soak up all the excess supplies.

Timber also is quite abundant in Jilin, which boasts 200,000 acres of primeval forests in the Changbaishan Mountain region. Much of the province's 180,000 square kilometres is well-forested, Gao said.

Because of a backward lumbering industry, much of these resources are not fully exploited. Though high-quality furniture is made

elsewhere in China with Jilin lumber, the province has not yet developed its own furniture industry, Gao said. Paper manufacturing also is another ripe opportunity, the governor said.

In mineral resources, Jilin Province ranks number one in Silica, pumice stone and lapillus, he said. But again, their potential is still largely untapped.

In industry, two cities stand out. Changchun, the provincial capital, is an automaking centre. And Jilin, the second largest city in the province, is known as a "chemical city" because it has the nation's oldest and largest chemical plant.

The provincial governor said that manglzyeas are open for overseas investments, including the auto, farm machinery, electronics and chemical industries; production of fertilizer and pesticides; mining and development of tourist hotels and other recreational facilities.

CSO: 4020/325

PROVINCIAL AFFAIRS

BRIEFS

XIZANG TAKING OVER PROJECTS--Concerned departments in Xizang have trained over 1,700 personnel to take over 43 local projects built with the assistance of concerned units from nine other provinces and municipalities. The training covers business administration, repair of electrical appliances, cooking, video equipment, and so on. [Summary] [Beijing XINHUA Domestic Service in Chinese 0836 GMT 29 Jul 85 OW]

CSO: 4006/875

## BRIEFS

SHAANXI TOWNSHIP, TOWN ENTERPRISES DEVELOP--Town and township enterprises have developed steadily in the province. According to statistics, the total income of town and township enterprises in the province for the first half of this year amounted to some 1.9 billion yuan. The total industrial output value of town and township enterprises in the province was 1.2 billion yuan. These amounts exceeded 93 percent of the annual target. [Summary] [Xian Shaanxi Provincial Service in Mandarin 1130 GMT 11 Aug 85 HK]

SHANGHAI VILLAGE INDUSTRY--During the first six months of this year, the output of Shanghai's village and town industry amounted to 3,886 million yuan, up by 42.5 percent compared with last year's corresponding period. Profits earned by village factories totaled 357 million yuan, or 41.7 percent more than the record for the first six months of last year. [Summary] [Shanghai WEN HUI BAO in Chinese 23 Jul 85 p 1 OW]

SHANGHAI GROSS DOMESTIC PRODUCT--Shanghai, 7 Aug (XINHUA)--The gross domestic product (GDP) of China's leading industrial city, Shanghai, averaged 3,259 yuan per person last year, according to the results of a municipal survey published Tuesday. This is the first time Shanghai has published GDP figures. In the past, the city, like other parts of China, calculated economic activities in terms of industrial and agricultural output value. Officials believe GDP is a more accurate indicator of economic growth, and includes the activities of all enterprises. The major survey was carried out this spring by the municipal planning commission, the statistical bureau and the financial bureau with the backing of the State Council. Results show that Shanghai's GDP last year amounted to 39.085 billion yuan, and also give a breakdown of the distribution of labor. Agriculture accounted for 4.4 percent of the GDP, industry 70.5 percent, and service trades 25.1 percent. Of the 7,673,300 employees, 19.3 percent were engaged in agriculture, 55.9 percent in industry, and 24.8 percent in the service sector. The survey will help Shanghai authorities chart the city's economic development strategy, said a local official. [Text] [Beijing XINHUA in English 0632 GMT 7 Aug 85 OW]

## GOOD WAY TO MANAGE MODERN INDUSTRIAL PRODUCTION DISCUSSED

Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 2, 28 Mar 85 pp 68-71

[Article by Feng Jinju [6646 6930 5112] and Chen Zhixi [7115 1807 3886]: "A Good Way To Organize and Manage Modernized Industrial Production--Investigation on Trial Establishment of An Enterprise-Type Company by Bicycle Industry in Qingdao City"]

[Text] We conducted an investigation early this year to find out how the bicycle industry in Qingdao City ran an enterprise-type company on a trial basis. We were profoundly impressed that reorganizing and integrating enterprises into an enterprise-type company in line with the principle of specialization and cooperation is an important way to develop industrial production and improve economic results. The enterprise-type company is an excellent means to organize and manage activities relating to modern industrial production and operations.

The Qingdao City Bicycle Industrial Company was founded at the end of 1980 during economic readjustment and reform on the basis of the Qingdao Bicycle Factory by introducing specialized division of labor through reorganizing and integrating other enterprises in the bicycle industry. It has achieved notable results in several short years. Compared with 1980 when the company started out to run as an enterprise on a trial basis, by 1983 output increased from 750,000 to 1.08 million bicycles or a rise of 44 percent; profits were up 33.9 percent; taxes delivered in place of profits increased by 40 percent; output value jumped 47.8 percent; and full labor productivity was up 13 percent. The quality of products was also improved. The bicycles marketed under the Golden Deer brand were rated by the Ministry of Light Industry and Shandong Province as products of fine quality.

Some of the methods used and experiences of the Qingdao City bicycle industry in running the company as an enterprise on a trial basis merit our attention:

I. Resolutely Overcoming the Small-Scale Production Mentality of Self-Sufficiency, Having a Style of One's Own, and Thoroughly Following the Road of Specialized Integration

Running an industrial company as an enterprise is the same as reforming the existing system of economic management. It is bound to encounter all kinds of obstructions, the fettering of the force of habit is one of them.

In pushing toward integration, the Qingdao Bicycle Company encountered tremendous obstructions due chiefly to the fact that the large factories were afraid of being divided up while the small ones dreaded that they might be swallowed up, so much so that they actually tried to maintain the status quo of being small but all-inclusive. As a result, the company kept two leading bodies and two operational setups at the beginning (one for the company and the other for the bicycle workshops), the company, carrying only an empty title, was unable to control anything. Before the company was established, it was suffering from division of labor without integration caused by barriers created by departments; after its establishment, it was suffering from integration without unification bringing about a passive situation that left the May production plan unfulfilled.

The leadership of the company soon found out that the trouble was caused by the small-scale production mentality. The small-scale production mentality of self-sufficiency, having a style of its own, originated from the natural economy and the selfishness, narrowmindedness and conservativeness of the small producers has seriously hampered the development of the productive forces. They are incompatible with specialized integration in socialized production. Confined by mentality of the self-sufficiency and its own style, the attitude toward the road of specialized integration certainly turned into a "professed love of what one really fears." It is impossible to achieve complete specialized integration without getting rid of this fetter. To cope with this situation, the company carried out work in three areas: 1) Publicizing the current situation in China by saying that it is quite impossible to invest massively in new factory buildings and new equipment even though market demand has increased sharply and the supply of name brand bicycles is falling short of demand; strengthening the study of economic theories to understand the significance of engaging in intensive reproduction on an extended scale and raising the productive forces by dint of specialized integration. 2) Thoroughly reorganizing the existing enterprises in line with the inherent demands for spare parts and components of products and technology and building them into new specialized factories. 3) Strengthening leadership and, on the basis of upholding the principle of voluntary participation, equality, consultation and mutual benefits, strengthening ideological education and exercising the necessary administrative interventions.

After further reorganization, the bicycle company is no longer a loose administrative company put together by several factories like "pieces of planks," instead it has become an economic entity of mutual accommodation with responsibility, authority and benefits closely knitting together. This type of company has laid the foundation for centralized management of manpower, financial and material resources, supply, production and marketing.

We can be enlightened by the Qingdao bicycle industry in running a company as an enterprise on a trial basis this way: In establishing an enterprise-type company by units of the same trade, it is necessary to rely on an enterprise having certain advantages, but to maintain this status quo after integration amounts to "spinning a cocoon around itself." Without engaging in specialized division of labor, modernizing production will be out of the question; without integration, division of labor is impossible; without reorganization, integration will not work either. It is through division of labor, integration, reorganization and division of labor again that an economic entity combining authority, responsibility and benefits finally takes shape to attain the goal of improving economic results.

## II. Implementing the Principle of Centralization and Decentralization To Exercise the Two Initiatives of the Company and the Subordinate Factories

Whether or not the initiatives of the company and the factories can be brought into play after the company is formed has a bearing on the rise and fall of the company; solving the issue of centralization and decentralization of power in the company is an important link for bringing the two initiatives into play.

Comrades of the Qingdao Bicycle Company held that the company is an economic organization and planning unit with independent accounting under the guidance of state unified planning. It has a direct economic responsibility to the state and the workers and staff members, and since bicycle production is well organized and more technologically linked, important policy decisions relating to operational policies, supply, production and marketing and manpower, financial and material resources should be unified; in other words, it calls for unified planning, unified statistics, unified delivery of taxes in place of profits, unified borrowing and lending and unified business accounting. However, having things unified does not mean that all the power should simply be centralized in the hands of the company so that it can exercise tight control over the factories, on the contrary, the power should be centralized or delegated on merit so that there is centralization or decentralization of power or a combination of centralized and decentralized power between the company and the factories to bring the initiatives of the company and the factories into play. They have achieved:

1. The power of making important policy decisions in deciding and changing the basic policies of the company's operations, the direction of products and so forth is centralized in the hands of the company, the company has the unified responsibility of conducting market investigation, making market forecasts and arranging production and operational plans in a unified manner so as to ensure the marketability of products and satisfy the needs of society.
2. The production scale, major technological transformation, production technology and technical standards and trial production of new products by various factories and the coordination of work among various factories are placed under the unified management of the company, which is also in control of the increase of fixed assets in various factories, the manufacturing of tools and molds and major overhaul of equipment in a unified way.

3. The power of planning rests with the company. The company exercises management in two ways by implementing the No 1 plan (that is, the mandatory plan within the company itself) and the No 2 plan (that is, the guidance plan; the various factories, with the premise of fulfilling the No 1 plan, may organize part of the production above the plan based on the market conditions). Various factories should see to it that the No 1 plan is fulfilled without any allowance. The No 2 plan, on the other hand, may be executed with reference to general conditions, it may also be readjusted in light of its own conditions.

4. The supply of raw materials is subject to a two-level management under the company and the factories, to be handled accordingly based on varieties, categories, different channels of supply and different uses.

5. The total number of workers and staff members and the labor quota of the company are controlled by the company. The transfer of workers in and out of the company and between factories is to be approved by the company, which also handles the necessary formalities involved. Cadres are managed according to levels; other matters regarding wage readjustment, job grading, recruitment of workers, awards and punishment, and retirement with full or reduced benefits and so forth are organized by the company in a unified way and implemented level by level in accordance with the stipulations put forth by the higher level.

6. The company recognizes the relative independence of various factories within the company. All factories assume economic responsibilities to the company and workers and staff members. Consequently, the factories have the following powers: the power to draw up production plans, purchase certain materials, sell products under the No 2 plan and transfer personnel internally within factories; the power to appoint and remove administrative and managerial cadres and section chiefs within factories; the power to disburse within the cost targets, use certain special funds, sign contracts with outsiders to do extra jobs and formulate rules and regulations within factories.

### III. Resolutely Overcoming Egalitarianism and Correctly Handling Distributions Within the Company

The bicycle company has put a firm grip on three links after its establishment:

First: It assesses the production results to provide a scientific basis for correctly handling the distribution relationship within the company. The company's assessment of the production results of various factories is made in reference to a series of plans and targets, the main targets under contract include the output, quality and profits; the guaranteed targets include the quality-product rate, cost, consumption, varieties, utilization of capital, equipment control and so forth. The fulfillment of planned targets and the material benefits are closely linked through the implementation of the economic responsibility system.

Second: The price lever is used as a means of unified business accounting on labor results. Externally, the bicycle company is an economic organization

implementing independent business accounting, internally, it implements a two-level accounting system covering the company and the factories. In a unified way, the company delivers tax in place of profits, retains profits and makes distribution on an extended scale. Internally, each factory has its own accounting system with each responsible for its own profit and loss. Various factories have a three-level accounting system under the factories, workshops and groups, or a two-level accounting system involving the factories and groups.

Price plays an important role in business accounting. In the past, the original price was used in appraising the labor results of various factories in spite of the existing situation that the price had deviated from value and the price parity between bicycle spare parts was also unreasonable. As a result, a phenomenon of uneven joy and misery created by nonoperating management appeared inside the company. The key to correctly handling the distribution relationship within the company, therefore, lies in defining a more reasonable "internal business accounting price." After repeated discussions, the company adopted a formula: cost + small profit = business accounting price, with most of the profits reflected in the company. This way upholds the principle of the company's unified accounting and also takes into consideration the differences among various factories. Moreover, the company has also adopted the principle of better price for better quality in order to check against production of defective or inferior products.

Third: Do a good job in sharing of retained profits. After delivering tax in place of profit in a unified way, the company also retains profits in a unified way to build up the production development fund and the collective welfare and bonus funds for workers and staff members. The production development fund is in the main centralized in the hands of the company for use in a unified way in technical transformation of the whole company and expanding productive capabilities. The collective welfare and bonus funds on the other hand are basically and totally distributed to the factories. In addition, a 2 : 8 ration is set for profits gained by various factories from production increases and cost reduction, that is, 80 percent is to be retained by the enterprises, 20 percent is to be delivered to the company, the portion gained by the factories will be used for production development, collective welfare and bonuses for workers and staff members at a 6 : 2 : 2 ratio.

In handling distribution, the company should take into consideration the economic benefits of both large and small factories, the main machinery and the assembly lines and the factories under public ownership and those under collective ownership. The company should not practice equalitarianism and discriminate in the transfer of resources or artificially widen differences. The company should help factories operating at a loss to analyze its cause. This should be done in the distribution of profit retention, with help extended to them in the way of management and also economic support by means of such measures as preferential price.

Some issues have cropped up in the course of running the enterprise-type company by the Qingdao bicycle industry which need to be looked into and

solved without delay. These issues involve the management system as a whole and also some crucial theoretical questions which are put forth here for discussion:

1. The Issue of Coexistence of the Two Types of Ownership Within the Company: Three types of ownership existed in the bicycle company after reorganization and integration: Public ownership, collective ownership and ownership interwoven between public and collective ownership. This has raised the issue of how to pay taxes and how to base the ratio for profit retention. Under the present financial system in our country, tax revenues and levels of profit retention from the two types of public ownership are totally different. Enterprises under public ownership have implemented the substitution of taxes for profits delivered to the state, whereas enterprises under collective ownership have implemented the eight-level progressive tax system, thus both tax categories and tax rates are different. As to the profit-retention rate, profits retained under collective ownership are approximately more than 3 percent higher than those under public ownership. So, if this rate is computed according to the profit-retention ratio in relation to the tax rate for enterprises under collective ownership, revenues will decrease and the financial departments will not do this; if it is computed according to the rate for public ownership, it will affect the company's returns. If the company also applies this to the factories in the same way, it will hurt initiative in both the company and the factories. To cope with this situation, the company has exchanged views with the financial departments on several occasions but without achieving a unanimous conclusion. In September 1983, the company submitted a report to the financial bureau proposing a new profit-retention ratio: The net book value of fixed assets of enterprises under the two types of ownership at the time of reorganization and integration + the actual amount of circulating funds, together with 50 percent each of the two factors--the number of workers and staff under two types of ownership. But the financial bureau did not respond with an official written reply. In 1983, the company had to temporarily use the profit-retention ratio intended for enterprises under public ownership and was unhappy about it. It is hoped that some changes will be made this year.

Theoretically speaking, since running an enterprise-type company is compatible with the demand to modernize production and is conducive to improving economic results, then the demarcation line between the two different types of ownership should not become an obstacle. However, there is, of course, a certain difference between public and collective ownership. Under the present circumstances, particularly when the state is experiencing financial difficulties, it is not suitable to reduce the ratio of gain by the state in profit distribution due to the establishment of an enterprise-type company. It is urgent that the decisionmaking policy departments consider formulating stipulations applicable to companies under the two types of ownership formed after reorganization and integration. The principle of setting the level of enterprise profit retention higher for collective ownership but lower for public ownership may be applied. In specific computation, it may be determined by taking into consideration the fund and wage ratios.

2. The Issue of Contradictions Between Industry and Commerce: The contradictions between industry and commerce are not a new issue caused by the establishment of the company; however, due to the expansion of the enterprise scale and the close integration of responsibility, authority and benefits, the contradictions have become more prominent since the company was established. As the supply of the Golden Deer brand bicycles is falling short of demand at present, the contradictions between industry and commerce find expression chiefly in the fight between the company and the distributing network (Grade two station) for the right to sell them. While the commercial departments hope to sell the products totally and exclusively, the company also hopes to have a large share in sales, thus both sides are in fierce dispute.

As we see it, the contradictions between industry and commerce and the scramble for marketing rights are merely superficial phenomena involving more complicated matters behind the scenes. First, it is a question of relations of interests. Because the profit plans handed down by higher levels are imposing increasing demands yearly with extra amounts added level by level, finding themselves in a situation with no other alternatives, the enterprises want to sell more themselves. Since enterprises do not have to pay much in circulation expenses for fast-selling products, grade two wholesale profits of 12 percent and retail profit of 14 percent "can be obtained easily." In this way, plans are fulfilled "with pride" and profits are achieved with the enterprises making more money, so "why not go for it?" Pursuing material benefits is the inherent motivating force of enterprise activities wherein the core of contradictions between industry and commerce lies. Second, it is a question of price. The ex-factory price of the large Golden Deer bicycles in Quigdao area is 115 yuan, the wholesale price, 130 yuan, and the retail price, 149 yuan. These prices have remained unchanged to this day since they were set in the 1960's. For more than 20 years, the cost of large Gold Deer bicycles has risen from approximately 70 yuan to 87 yuan, of which the rise in prices of raw materials has brought about an increase in cost of approximately 70 percent, but the ex-factory price has remained unchanged. Since profits have remained intact for the commercial departments, the industrial departments are critical of this situation.

How will this contradiction ultimately be solved? Comrades in the company put forth two tentative suggestions: one is for the company to combine industrial with commercial operations, the other is for the industrial and commercial departments to compromise on profits through consultation. We feel that the latter idea seems to be more acceptable. With the commercial departments specifically in charge of business, it will help unclog circulation channels and save circulation expenses. In the meantime, other problems in the system and in work can be solved step by step. From the standpoint of long-range planning, therefore, it is still better to let the commercial departments handle this business, although the industrial departments should also be given certain rights to market goods themselves. Under present circumstances, adequate readjustment of profits between the industrial and commercial departments involves only the distribution of benefits between industry and commerce and has no negative effect on the

financial revenue of the state. Therefore, this measure should be given some consideration. It goes without saying that even if this measure resolves problems in certain areas between industry and commerce, departments at higher levels still must make a decision.

3. The Relationship of Barriers Between Different Departments in Running An Enterprise-Type Company: The Qingdao Bicycle Industrial Company is a regional company of specialized integration combining vertical with horizontal operations at present but with horizontal operations as the leading force. Needless to say, this management system has played an important role in running and developing the bicycle company. However, the running of this company and the vertical and horizontal management system, especially the horizontal management, have also created certain contradictions, such as the question of statistical caliber, for example. After the company became an economic entity, factories in the company could no longer make outside contacts and all statistical reports were to be handled by the company in a unified way. However, by so doing, (the output value under similar conditions is bound to decrease. Since the output value computed for statistics in accordance with the factory law is duplicated in computation, this duplication would be eliminated after the company submitted the statistical reports in a unified way.) As a result, the output value of the bicycle company will drop by about 20 million yuan annually. Although we have now resolutely reversed the past trend of lopsidedly going after output and made net output value the basic statistical index, total output value still remains an important index in assessing the growth rate. Therefore, from the standpoint of horizontal management, the local growth rate affected statistically as a result of operations has to be considered.

Another example is the question of "robbing the rich to help the poor." The horizontal management wanted some advanced enterprises to support the small factories lagging behind, but the enterprises disagreed by resorting to the use of political power. Comrades in enterprises called such a practice "robbing the rich to help the poor." Such a situation existed in the bicycle company, too.

Theoretically speaking, it is wrong to "rob the rich to help the poor." To develop production and raise efficiency, we should encourage competition in order to protect the advanced enterprises. However, because of their own relative independent interests, the horizontal departments have to think about problems far more complicated than the use of the enterprises, they have to think about developing advanced enterprises while at the same time ensuring that the small factories are kept alive, and other problems far beyond that range. This issue, therefore, cannot be solved adequately as long as the system of horizontal economic management is adopted. It appears that the solution to this contradiction is not an issue involving an enterprise or a place: the existing vertical and horizontal economic management must be reformed. A further in-depth study should be conducted to see whether or not a management system with the backing of a key city and in the form of a company should be considered.

12662  
CSO: 4006/787

ECONOMIC MANAGEMENT

BEIJING MOVES TO CONSOLIDATE PEASANT MARKETS

OW070842 Beijing XINHUA in English 0836 GMT 7 Aug 85

[Text] Beijing, 7 Aug (XINHUA)--The Beijing Municipal Government started a month-long campaign today to consolidate its 500 peasant markets and trading spots.

An official said this effort is directed against disorder, profiteering from resales, traffic hindrance and the impairment of city appearance and hygiene in some places.

At the end of June, the city has 258 free markets and trading spots. After the city encouraged vegetable growers to sell their products in Beijing, 249 vegetable markets and stands centers sprang up in the city and near suburbs.

Households engaged in industry and trade in Beijing number 73,000.

The markets, he said, still fall short of demand.

A task force formed of people from industrial and commercial administrations, and the public security, environment and price bureaus will visit key areas from today.

Vegetable stands which hinder traffic, will be moved and only licensed hawkers will be allowed to use the free market areas.

Individual dealers will be instructed in fair trading.

CSO: 4020/325

## REPORT ON GUANGZHOU MEAT, VEGETABLE MARKETS

OW160412 Beijing XINHUA in English 0301 GMT 16 Aug 85

[ "Price Reform Stirs Guangzhou Meat, Vegetable Markets"--XINHUA headline]

[Text] Guangzhou, 16 Aug (XINHUA)--Guangzhou, a major south China port city, has contracted all its 58 major meat and vegetable retail business centers to shop assistants who work as collectives.

Instead of staying in the market, they take the produce out to sell on the streets. Now, more than 2,000 mobile and stationary sales stands are dotted throughout the city. This, plus an estimated 4,000 peddlers, forms a well-knit meat and vegetable sales network.

In addition, the city has set up five seafood wholesale centers and some wholesale centers handling meat and vegetables from other provinces, as well as ten major vegetable wholesale centers on the outskirts, which are open to state, collective and private vegetable dealers.

According to the city's meat and vegetable company, which is in charge of the non-staple food supply for the more than 5.6 million people in the city, in 1984 it sold 125,000 tons of pork, averaging about 50 kg per person and double the amount in 1978; 92,500 tons of aquatic products, averaging 37 kg per person and more than double the amount in 1978; and 17.2 million kg of poultry, averaging seven kg per person and five times the amount in 1978.

Since the beginning of this year, an average of 900 tons of vegetables has been put [as received] on the market every day. The average amount of vegetables on the market even in the slack season of July and August has remained at 800 tons.

Meat and vegetables come mainly from suburban areas, and aquatic products come from six counties in the Pearl River Delta. Fish

also comes from Sichuan, Guangxi, Fujian, Hunan, Hebei and Jiangsu Provinces, which complete the range of seafood being sold at nearly 1,000 stands throughout the city.

Apart from getting supplies from the city's meat and vegetable company, the state shops are also allowed to organize their own supplies from the rural areas or from outside the province.

Prices of agricultural and sideline produce have gone up to varying degrees, officials of the city vegetable company said.

Compared with last year, the price of pork rose 72.13 percent, and vegetables as a whole went up 46.4 percent. This means that each person has to spend an additional 2.5 yuan for pork and 1.3 yuan for vegetables each month. But this is covered by state subsidies for city residents, allotted after prices of non-staple food were allowed to float according to market demand.

As supplies increase, prices are going down. According to the vegetable company, prices of vegetables dropped by 20 percent in July and August as compared with those in spring. The price of pond fish dropped from 3.2 yuan to 1.6 yuan, with the best ones selling for two yuan.

Guangzhou was the first Chinese city to end the state monopoly of purchase and supply of non-staple food and let prices float. The city authorities have shifted their attention to providing information, funds and technique, and feed and seeds to peasants so that they will produce according to market demand.

This change-over helped save the state providing subsidies to state shops for losses in handling vegetable and meat supplies, and directed the attention of vegetable growers from quantity to quality, thus preventing waste.

The city authorities said that the experiment is just beginning, and the problem of how the state shops will participate in market competition and regulate prices to keep them within reasonable bounds remains to be solved.

CSO: 4020/325

ECONOMIC MANAGEMENT

PRC ELECTRONICS INDUSTRY DEPUTY MINISTER ON REFORM PLANS

HK020415 Beijing CHINA DAILY in English 2 Aug 85 p 2

[By staff reporter Zhao Jinming]

[Text] The Ministry of Electronics Industry is relinquishing direct management of businesses and will in future concentrate on overall strategic control and development of the sector which includes more than 2,400 enterprises nationally.

Administration of 51 of the 172 directly managed enterprises was last week handed to local authorities as the first step in the planned reform.

The 51 enterprises--13 in Beijing and 38 in Sichuan Province--made up nearly one-third of the ministry's total.

Zhang Xuedong, deputy minister, said at a press conference on Tuesday that the ministry plans to put all the enterprises it currently runs under the control of city authorities. The move will be completed in stages this year, Zhang said.

In 1986, the ministry will help provinces shift the administration of their electronics businesses to the cities and suggests other ministries and commissions follow the step, he said.

To invigorate the electronics industry, he said there is a pressing need to separate the functions of government and management and to promote unified management of the industry throughout the country.

The Ministry of Electronics Industry will set policy and overall planning for all the country's electronics businesses. The country now boasts more than 2,400 electronics enterprises employing more than 1.36 million.

The deputy minister said the final goal is to create a complete and integrated electronics industry by forming several giant electronics groups and a number of specialized businesses.

While accelerating the domesticization of electronic products, the ministry will continue to import advanced technology and equipment. But, duplication and importation of lower technology will be avoided, he said.

The ministry will gear up production for export. It plans to export \$250 million worth of electronic goods annually by 1990, he said.

In the first six months of this year, the ministry's total industrial production hit 14.75 billion yuan, an increase of more than 64 percent over the same 1984 period. It earned a profit of 410 million yuan this year, a jump of 41 percent over last year, he said.

In a bid to give more impetus to the current reforms, the ministry is hosting a five-day meeting in Beijing. More than 130 representatives from 21 provinces and cities and 15 related ministries and commissions attended the first session yesterday.

CSO: 4020/325

FINANCE AND BANKING

PRC TAX INSPECTORS DISCOVER CASES OF TAX EVASION

HK040554 Beijing CHINA DAILY in English 4 Aug 85 p 3

[By staff reporter]

[Text] Tax inspectors have discovered cases of tax evasion worth millions of yuan in two provinces of north China.

According to local newspapers, evasion has become a serious problem caused mainly by negligence of the financial law, an inefficient collection system and incompetent tax-collectors.

The State Council group of inspectors discovered that the city of Weifang and Yixian County in Shandong Province had evaded a combined 38.41 million yuan of tax during an investigation of the area, Economic Information reported.

The group suggested that local tax departments take sole charge of tax-collecting, which is at present split between financial departments and tax departments.

They also said the country ought to train tax-collectors and recognize the status of experienced officials in tax departments, with professional titles.

In Hebei Province, the provincial authorities have since April inspected 9,400 state-owned enterprises. Almost 50 percent of them were found to have evaded taxes, either through deliberate accounting irregularities or negligence of tax regulations.

They have now paid up 15.2 million yuan of taxes evaded to the state treasury, enabling the province to fulfill this year's tax collection target early this month.

The province also found many of its prefecture or county authorities had, in the past, practiced a series of economic policies contrary to state tax regulations, making it possible for their enterprises to withhold taxes payable to the state and use them for other purposes.

These local authorities have now corrected their irregular practices and openly announced the annulment of their past decisions which violated state tax rules, thus removing obstacles to the tax inspection drive.

However, reports from Henan Province say many rural enterprises had been over-taxed.

The tax departments in Xinxiang Prefecture, Henan Province, have refunded 5.28 million yuan of tax to rural enterprises.

Over the last two years, enterprises in the prefecture developed quickly. In 1984, they paid 28.18 million yuan in taxes, 36 percent of the prefecture's total industrial and commercial taxes.

But the prefecture's tax bureau discovered that some tax departments had demanded excessive sums from rural factories and levied taxes on some that enjoyed tax exemption.

The bureau organized a 270-member inspection group to examine the records of 710 rural factories in the prefecture's 447 villages. They found that 539 which enjoyed tax exemption or reduction had received incorrect demands and 26 were over-charged.

CSO: 4020/325

FINANCE AND BANKING

TAX INSPECTION TELEPHONE CONFERENCE HELD

OW092202 Hefei Anhui Provincial Service in Mandarin 1100 GMT  
7 Aug 85

[Excerpts] According to a report by this station, the provincial government held a provincewide telephone conference on 4 August, making plans to carry out a general financial affairs and tax inspection beginning this month throughout the province. Attending the telephone conference were commissioners of the various administrative offices, mayors, county magistrates, and responsible comrades of the provincial departments concerned, the courts, and the procuratorates. Governor Wang Yuzhao presided over the conference, and Vice Governor Shao Ming spoke at the conference.

After speaking about the favorable trend in the province's economy since the beginning of the year, as manifested by sustained, steady, and coordinated development, Comrade Shao Ming pointed out: Inadequate financial resources have always been one of the major factors restricting our province's economic development. A prominent problem now affecting the financial income resulted from considerably serious tax evasion and a failure to collect taxes that should have been paid. In the first half of this year, the province's tax departments have carried out inspections among some taxpayers and found that 53 percent of them had committed acts of tax evasion and that the total amount of tax evasion throughout the province was 24.55 million yuan. Therefore, it is very necessary to carry out a general financial affairs and tax inspection immediately. Such an inspection is necessary not only for ensuring the state financial income but also necessary for solemnizing financial and economic discipline, as well as for opposing unhealthy tendencies.

Vice Governor Shao Ming said: In principle, the scope of this inspection covers the situation in general financial affairs and tax collection for 1984 and from the beginning of this year. In case numerous problems of a relatively serious nature are discovered among some enterprises, the inspection may be extended back beyond the time limit until the problems are clearly and thoroughly investigated.

Governor Wang Yuzhan stressed in his speech four points of opinions:

1. Currently, the tax evasion is truly very serious. Some cases are even of a malicious nature. They have not only infringed upon the interest of the state, affected the financial income, interfered with the smooth progress of reform of the economic structure and four modernizations, but also damaged the party's work style and social practice, and corroded a number of cadres. Governments at all levels must clearly recognize the serious harmful nature of this problem and unswervingly do a good job in this general financial affairs and tax inspection.
2. Paying taxes is a strict obligation of every citizen. It is necessary to carry out education on patriotism and the legal system and establish a common practice which upholds the honor of paying taxes according to law and despises tax evasion.
3. The present phenomenon of tax evasion and violations of financial and economic discipline is a new unhealthy tendency, which must be resolutely stopped. It is necessary to integrate this general financial affairs and tax inspection with party rectification, the consolidation of social order, and the transformation of social practice; and, through the general financial affairs and tax inspection, give an impetus to party rectification, and promote further improvements of social order and social practice.
4. It is imperative to generate a momentum in this general financial affairs and tax inspection. Governments at all levels must regard it as an important work for the second half of this year, and map out plans and organize forces to carry it out in various phases and steps. The present general financial affairs and tax inspection is a matter concerning not only financial and tax departments but other departments as well. Newspapers, radio stations, and television stations should strengthen legal system propaganda, commend advanced units and individuals who have paid taxes according to law, and criticize acts of tax evasions. The provincial governments will select personnel from departments and bureaus concerned and organize them into inspection groups to carry out inspections in all localities. All localities should also organize forces to carry out inspections. All trades and professions should mobilize themselves to take part in this general financial affairs and tax inspection. It is necessary to launch a major mobilization and propaganda campaign and to explain the reasons and policies clearly. It is necessary to pay attention to grasping the typical examples on the basis of universal inspection and handle the matter in a big way.

Governor Wang Yuzhao also called on all localities to perform grain procurement work well, carry out a general financial affairs inspection among village and town enterprises, stop unscrupulously charging fees from peasants, and reduce the capital construction scales and administrative management expenditures, in order to ensure a healthy development of our province's economy in the second half of this year.

CSO: 4006/866

MINERAL RESOURCES

BRIEFS

JIANGXI COPPER SMELTERY--Nanchang, 14 Jul (XINHUA)--After more than five years, the first-stage construction project of the Jiangxi Guixi Smeltery, the nation's largest modern copper smeltery, has been completed, and is scheduled to start production in late August. During the initial stage, the smeltery will have a yearly output of 90,000 metric tons of copper and between 340,000 and 360,000 metric tons of sulfuric acid. When fully completed, the smeltery's yearly output will be 200,000 metric tons of copper and 860,000 metric tons of sulfuric acid. [Summary] [Beijing XINHUA Domestic Service in Chinese 0808 GMT 14 Jul 85 OW]

CSO: 4006/875

INDUSTRY

GENERATOR COMPONENTS PRODUCTION DIFFUSED TO MILITARY, SHIPBUILDING AND RAILWAY MANUFACTURERS

Beijing ZHONGGUO JIXIE BAO in Chinese 12 Apr 85 p 1

/Article: "Production of Some Important Components of Power Generating Equipment Spread Among Enterprises of the Military Industry, Shipbuilding Industry and Railway Engineering Departments. The Ministry of Machine Building Industry Points Out That All Factories Capable of Undertaking the Manufacture of Generating Equipment May Apply to Departments Concerned To Take On Production Tasks"

/Text/ To open up new ways for the increased manufacture of power generating equipment, over 100 Chinese key enterprises manufacturing main and auxiliary power generating machinery as well as transmission and transformer equipment met early in April in Beijing with over 30 enterprises of the military industry, shipbuilding industry and railway engineering departments. Through friendly consultations it was agreed upon to spread the production of 52 important components, such as the metal parts of power plant boilers, air preheaters and transformer oilboxes, among the said enterprises. For one lot of items contracts were actually signed.

The components that were thus farmed out for production included: presubmerged parts of hydraulic turbines to be manufactured through cooperation with the Bohai Shipyard for the Harbin Electric Engineering Plant, metal components of power plant boilers for the Harbin and Shanghai Boiler Manufacturing Plants to be manufactured through cooperation with the Baoji and Shanhuaiguan Bridge Building Plants, etc.

A responsible person of a relevant department in the Ministry of Machine Building Industry expressed the opinion that to break through territorial and departmental barriers and through those between the military and civilian sectors to promote the manufacture of power generating equipment will help accelerate increased production, effect a steep rise in capacities and will help diversify production. It will also stimulate competition between enterprises.

It is this reporter's understanding that to meet the needs of China's power industry, the Ministry of Machine Building Industry is also preparing for a further promotion of these kinds of cooperation. Factories throughout the nation that are capable of undertaking production of power generating equipment--including factories that manufacture main and auxiliary generating equipment,

transmission and transformer equipment as well as automatic control equipment-- regardless of location, departments or trade groups to which these factories belong, may apply to the specialized bureaus, for instance, electrical engineering, universal machinery, heavy-duty machinery, instruments and meters bureaus, within the Ministry of Machine Building Industry to undertake certain production tasks. After due examination, arrangements will be made to organize them for production.

9808

CSO: 4013/131

INDUSTRY

DEPUTY DIRECTOR OF CHINA STATE SHIPBUILDING INTERVIEWED

HK110253 Hong Kong AFP in English 0231 GMT 11 Aug 85

[By Michel Houx]

[Text] Beijing, 11 Aug (AFP)--China's shipbuilding industry, after a boom which has led it to become the world's fourth largest in recent years, appears to be marking time.

The shipbuilding authorities have set no precise target for production during the remainder of the century, owing to uncertainties in the world market and a slump in demand for shipping.

Leaders of the China State Shipbuilding Corporation (CSSC) said that 1.44 million tons of shipping was built in 1984--11.9 percent more than in 1983.

The production target for this year, however, is 1.5 million tonnes--only 4.2 percent more than last year's output.

The order books now contain firm orders for only 250,000 tonnes of shipping, whereas a year ago they contained orders for between 300,000 and 500,000 tonnes, according to Chinese officials.

China signed contracts for only 100,000 tonnes of shipping for foreign countries in 1983, against 300,000 tonnes in each of the three previous years.

CSSC Deputy Director Pan Zengxi told AGENCE FRANCE-PRESSE in a recent interview that shipbuilding is one of China's priorities, 1.1 billion yuan (383 million dollars) have been invested in the industry in 1984.

Mr Pan said that in 1949 China had fewer than 10 shipyards, together employing only 10,000 workers and producing less than 6,000 tonnes of shipping.

Last year, the country had some 500 shipyards, employing a total of 500,000 workers and producing 1.44 million tonnes of shipping, he said.

China has plenty of scope for a large shipbuilding industry, having some 18,000 kilometers (11,250 miles) of coastline.

The industry really took off in 1980, becoming the world's fourth largest after Greece, Japan and the Soviet Union, according to Western experts.

Mr Pan said that in 1984, 67 percent of the industry's output was for the Chinese market, and the rest for export. He said the industry made a profit of 330 million yuan (115 million dollars).

Since 1980, 1.2 million tonnes of shipping have been ordered and 900,000 tonnes delivered to date.

The ships included tankers of up to 36,000 tonnes, general purpose ships of up to 19,000 tonnes and container ships of up to 12,300 tonnes.

The CSSC had also begun cooperating with foreign firms in the construction of three drilling platforms and in the repair of another, he said.

Mr Pan said that export orders came mainly from Hong Kong, Singapore, West Germany and Norway.

Chinese leaders have begun a programme of modernization of the biggest shipyards to allow them to handle larger ships--up to 200,000 tonnes at the Dalian yard.

The oldest yard, at Shanghai, dates from 1965, and the youngest, at Guangzhou from 1939. [sentence as received]

The most important projects are at the Shanghai and Dalian yards, which are being modernised in cooperation with the Japanese firms Hitachi and Mitsuyi, he said.

Officials have regularly said that to modernise Chinese shipbuilding it is necessary to import foreign technology.

Such technology includes on-board computers, safety equipment, incinerators, hauling gear, anti-corrosion products and anti-pollution materials.

Mr Pan said that the favoured forms of foreign cooperation were deals for the co-production or manufacture under license of engine components, electrical and electronic systems and instruments and equipment.

He said that last year the CSSC had signed 24 agreements for manufacturing under license--six with Japan, five with West Germany, three with Australia, two each with Switzerland and Austria,

and one each with the United States, Britain, France, Hong Kong, Norway and Sweden.

The CSSC also struck seven co-production deals--two each with Denmark and the United States, and one each with Japan, France and Norway, he said.

Western experts have said that shipbuilding receives preferential financial facilities from the government to an extent not seen in any other sector, such as loans with interest rates as low as 2.53 percent.

But the experts said they wondered about the Chinese shipbuilding industry's future, given that the slump in the Western shipbuilding industry is threatening to affect Asia, while Chinese leaders have taken steps to cool the recent overheating of the Chinese economy.

The CSSC appears cautious, refusing to reveal production targets even for the 1986-1990 period, let alone the period up to the year 2000.

"A ship is a commodity that must be sold according to the market situation," said Mr Pan.

CSO: 4020/325

INDUSTRY

PRC INDUSTRY 'CLOSER' TO ACHIEVING BALANCE OF SUPPLY, DEMAND

HK120319 Beijing CHINA DAILY in English 12 Aug 85 p 2

[Text] Production figures for last month show that Chinese industry moved closer to achieving a balance between supply and demand with a growth in production of goods in short supply and a reining in on the production of previously oversupplied items.

According to the State Statistics Bureau, the tendency to blindly pursue profits and ignore the overall economic outcome, was avoided in July.

Initial progress has been made in adjusting production to market demand, said the bureau.

Output of mining and metallurgical equipment, industrial furnaces and electricity-generating equipment all over manufactured in the past--dropped by 24 percent compared with June.

Output of sought-after products such as colour TV sets, refrigerators, cassette recorders, washing machines, wool and beer showed steady increases, the bureau said.

Energy production in the first seven months of this year increased by 11.2 percent over the same period last year.

Total industry output value in July stood at 67.9 billion yuan (about \$24 billion), roughly 6.4 billion yuan (about \$2.8 billion) less than in June, it said.

However, total output value this year is still running at 22.8 percent higher than at the corresponding point last year.

The present pace of development is still too fast for raw materials producers, electricity suppliers and transport systems to cope with, the bureau said.

Industrial producers should aim at controlling quality more strictly, limiting the production of goods in excess supply and promoting production and sales of commodities in urgent demand.

CSO: 4020/325

INDUSTRY

BRIEFS

ZHEJIANG CEMENT OUTPUT--In 1984, Zhejiang Province's town and township-operated cement factories produced a total of 2,926,000 metric tons of cement, ranking second in the country, and 99.3 percent of their cement output was up to standard. Of the 220 or so town or township-operated cement plants in Zhejiang, 197 have set up standardized laboratories to tighten quality control. [Summary] [Hangzhou ZHEJIANG RIBAO in Chinese 8 Jul 85 p 1 OW]

CHINA INCREASES OUTPUT OF CHEMICAL FIBERS--Beijing, (ZHONGGUO XINWEN SHE) 26 Jul--In the first half of this year, China's output of chemical fibers totalled 455,400 tons, an increase of 33 percent compared with the same period last year. Of this figure, the output of synthetic fibers was 362,000 tons, an increase of over 40 percent compared with the same period last year. In the first half of this year, production by large chemical enterprises, including Jinshan in Shanghai and Liaoyang in Liaoning, Tianjin, and Sichuan increased steadily. Moreover some 100 locally-run, small chemical fiber factories were put into operation in Shaoxing, Nanton, Suzhou, and other places. The famous Yizheng chemical fibers corporation was also partially put into operation in the first half of this year. China continues to develop the production of chemical fibers. Starting this year, Daqing oil field has transformed a petrochemical factory, capable of producing 5,000 tons of acrylic fibers a year in the past, into a large chemical fibers factory with an annual output capacity of 50,000 tons. According to the Seventh 5-Year Plan, by 1990, China's annual output of Chemical fibers will total 1.15 million tons. [Text] [Beijing ZHONGGUO XINWEN SHE in Chinese 0338 GMT 26 Jul 85 HK]

CSO: 4006/875

CONSTRUCTION

SHANDONG'S LIANG BUTING VIEWS TOWN CONSTRUCTION PLANS

SK100559 Jinan DAZHONG RIBAO in Chinese 14 Jul 85 p 1

[Text] On 13 July, leading comrades of the provincial CPC Committee, including Liang Buting, Jiang Chunyun, and Yang Yanyin; the provincial Advisory Commission, including Su Yiran; the provincial People's Congress, including Xiao Han and Xu Jianchun; the provincial People's Government, including Song Yimin; and the provincial CPPCC Committee, including Xu Meisheng, came to Wanzhu Garden in Jinan City to view and examine the exhibition on the provincial plans for building villages and towns. They viewed, with great interest, the displayed photos and models and carefully inquired about the situation prevailing in the construction of villages and towns in various localities.

During their view, the leading comrades, including Liang Buting and Su Yiran, stated: Following the development of the rural economy and the improvement of the peasants' life, it is inevitable that we bring about great development in building villages and towns. Therefore, a good job should be done in building villages and towns and summing up the experience gained in the construction in a timely manner in order to enhance the activities of guidance. The leading comrades stressed that a good job should be done in mapping out plans for building villages and towns and adopting concrete measures for fulfilling these plans. In carrying out construction, we should pay attention to minimizing the occupation of land, adapting the construction work to local conditions, doing what we are capable of doing, drawing on local resources, and refraining from carrying out blind construction, such as dismantling old houses and building new houses arbitrarily. The houses and facilities of new villages and towns will be full of contemporary and local characteristics and of nationalities' style. The designation and construction of peasants' residences will be based not only on beauty, but also in the principle of practicing economy, being suitable for usage, being scientific, and being favorable to production and livelihood, providing conditions for the household enterprises of peasants, building proper facilities for raising livestock, and taking into full consideration the various needs of the specialized households in developing their production. The exhibition will be opened to the public in the near future.

CONSTRUCTION

WANG ENMAO ATTENDS OPENING OF XINJIANG CHEMICAL FERTILIZER PLANT

HK091231 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT  
8 Aug 85

[Special report: "Greet the 30th Anniversary of the Founding of the Autonomous Region with Gratifying Achievements"]

[Text] This morning, the colored flags were fluttering in the wind on the Urumqi petrochemical plant. Music was played. The workers of various nationalities gathered together to celebrate the region's long-cherished opening of the large chemical fertilizer plant. The plant was just completed and performed well in the test run.

Leaders of the regional party and government, including Wang Enmao, Ismail Aimat, Tomur Dawamat, Qi Cuo and Li Jiayu; as well as Sheng Huaren, deputy general manager of the China National Petrochemical Corporation, and others attended the ceremony and conveyed congratulations. Wang Enmao cut the ribbon at the ceremony. Qi Guo, secretary of the regional CPC Committee, and Sheng Huaren, deputy general manager of the China National Petrochemical Corporation, delivered the speech at the ceremony.

Qi Cuo said: From the beginning of construction to its completion, the region's large petrochemical plant was much in the thoughts of the leading comrades of the CPC Central Committee and the State Council. This has reflected that the CPC Central Committee and the State Council have paid much attention to the economic development of the border areas. After being put into operation, this modern chemical fertilizer installation is capable of producing 300,000 tons of carbamide and 520,000 tons of synthetic ammonia. Thus, it can basically meet the region's demand for agricultural and animal husbandry production. The completion of construction of the region's large chemical fertilizer plant will be beneficial to promoting the development of the region's economy, as well as improving the people's living standards.

After the ribbon-cutting ceremony, the leaders of the regional party and government visited the production area, met the workers

of the workshop and production lines, and conveyed greetings to the experts, technicians and engineers from Japan, the United States and West Germany.

Since its trial production on 31 July, the chemical fertilizer plant's equipment has performed well. It has produced more than 2,000 tons of carbamide that passed the quality check.

CSO: 4006/866

DOMESTIC TRADE

NORTH CHINA ECONOMIC COOPERATION MEETING CONCLUDES

SK080140 Shijiazhuang HEBEI RIBAO in Chinese 10 Jul 85 p 1

[Text] The fourth north China meeting on economic and technological cooperation concluded on 6 July after a 2-day session.

The meeting was presided over by Guo Zhi, vice chairman of the Standing Committee of the Hebei Provincial People's Congress. Zhang Shuguang, governor of Hebei Province, and Li Feng, vice governor, attended the meeting and received all the participants. At the meeting Li Zhongyuan, vice chairman of the Standing Committee of the Tianjin Municipal People's Congress, made a summing-up report on work since the third north China meeting on economic and technological cooperation. Meanwhile, Han Boping, vice mayor of Beijing Municipality, Liu Zuohui, vice chairman of the Nei Monggol Autonomous Region, Lu Shangji, vice chairman of the Shanxi Provincial Planning Commission, and Song Shuhua, chairman of the Hebei Provincial Economic Commission, expressed their opinions on the economic and technological cooperation between their own localities and on further strengthening economic and technological cooperation in north China. Responsible comrades of departments concerned under the State Planning Commission and the State Economic Commission delivered speeches.

The meeting maintained that in order to promote the common economic development of north China and create a new situation in economic and technological cooperation, we must grasp the following several tasks at present:

1. Continue to emancipate our minds and strengthen horizontal economic cooperation. The five provinces, municipalities and autonomous regions should conscientiously implement the policy raised by the central authorities on invigorating the domestic economy and opening to the outside world, and should organize diversified and multilayered cooperation and integration among different localities, trades, and enterprises and between the urban and rural areas.
2. Draw up appropriate plans for cooperation and undertake rational economic distribution. Under the guidance of the state

plan, we should emphatically develop those cooperative items which have strategic significance to the economic development of north China. In line with the readjustment of the economic structure and with a rational distribution of the economy, in accordance with the principle of exercising control over major issues while allowing flexibility on minor ones, and focusing on invigorating large and medium-sized enterprises and developing products in short supply, we should develop more projects which result in less investment, quicker returns, and bigger profits. To avoid disorder in production, we must give overall consideration to cooperation in north China in line with realities and formulate feasible plans in line with the principle of "depending on cities, dividing the work for various localities, and undertaking rational distribution."

3. Adopt special policies and give preferential treatment to places in north China. In developing natural resources and new products and in allocating capital, priority should be given to places in north China, if possible. In transferring advanced scientific and technical findings and in popularizing and disseminating applied technologies, priority should also be given to units in north China. Open bidding on difficult projects and joint research for tackling technical problems should first be carried out in the north region. We should sponsor regular or irregular markets in the region to deal in technologies in order to form a regional economic and technological network. We should train talented persons for others, if they lack them, on a reciprocal or commission basis through sponsoring short-term training classes and specialized courses. All units should be allowed to invite and employ related technical personnel of other units to serve their own units concurrently or give technical guidance.

4. Communicate the situation and establish an information network. To further strengthen information contacts in the region, the BEIJING JINGJI XINXI [BEIJING ECONOMIC INFORMATION] should be regarded as the regional periodical for cooperative information. Various provinces, municipalities, and autonomous regions should be responsible for providing information data. Those bulletins, periodicals and documents which are run by localities but reflect the situation, progress rate, plans, and experiences of economic and technical cooperation, and those materials related to economic and technical cooperation should be circulated in a timely manner among the five provinces, municipalities, and autonomous regions in the north China. In addition, the meeting formulated some regulations on strengthening organizational coordination and holding joint conferences.

CSO: 4006/864

JPRS-CEA-85-082  
9 September 1985

DOMESTIC TRADE

LIAONING DELEGATION MAKES BUSINESS TRIP TO HEILONGJIANG

SK051343 Harbin Heilongjiang Provincial Service in Mandarin 2200  
GMT 2 Aug 85

[Text] At 1800 on 2 August, a 10-member delegation of Liaoning Province, including Li Guixian, secretary of the Liaoning Provincial CPC Committee; Quan Shuren, governor of Liaoning Province and deputy secretary of the Liaoning Provincial CPC Committee; Li Changchun, deputy secretary of the Liaoning Provincial CPC Committee and secretary of the Shenyang City CPC Committee; Li Qisheng, secretary general of the Liaoning Provincial CPC Committee; Bi Xizhen, secretary of the Dalian City CPC Committee; and leading comrades in charge of economic cooperation work of Liaoning Province and Shenyang City, arrived in Harbin City by train on a business trip.

Responsible comrades of the Heilongjiang Provincial CPC Committee and the Heilongjiang Provincial People's Government greeted the delegation at the train station.

The Liaoning guests will spend 3 or 4 days in Harbin City. During this time, they will hold meetings with the leading comrades of Heilongjiang Province to exchange experiences gained in economic and other fields and to discuss issues concerning future economic and technical coordination between the two provinces.

CSO: 4006/864

FOREIGN TRADE AND INVESTMENT

GANSU, U.S. FIRM SIGN CONTRACT OF INTENT FOR JOINT VENTURE

HK040417 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT  
3 Aug 85

[Text] On the afternoon of 3 August, the provincial coal industry general company and the U.S. Waldemar Nilson International Corporation Limited signed a revised letter of intent for setting up the Huamei Coal and Chemical Industry Company as a joint venture. The revised letter stipulates that this company, to be set up as a joint venture by the provincial coal industry general company and the U.S. Waldemar Nilson International Corporation Limited, will use Gansu's Huating coal and build a plant producing 300,000 tons of methyl alcohol a year and an associated coal mine producing 600,000 tons of coal a year. The initial budget for this project sets total investment at \$220 million, of which the U.S. side will invest \$171 million. After this scheme is approved by the state, a formal contract will be signed, and pre-construction work will be undertaken immediately so as to start construction in 1988 and put the project into production in 1990.

This project will use the most advanced coal gas conversion system that is available, the methyl alcohol synthesizing technique. It will convert Gansu's resource advantage into an economic advantage and play a positive role in invigorating the province. It will also be of major importance for China in its development of new energy sources and chemical industry raw materials.

The letter of intent was signed by (Zhang Qingsheng), deputy manager of the provincial coal industry general company, and Mr Waldemar Nilson, director of the U.S. company. Provincial leaders Jia Zhijie, Hou Zongbin, Zhang Wule, and Ge Shiying attended the signing ceremony. Mr Nilson arrived in Lanzhou on 27 July to attend the province's talks on external economic and technological cooperation and trade. Governor Chen Guangyi has met and feted him and thanked him for his efforts in helping to develop Gansu.

CSO: 4006/864

FOREIGN TRADE AND INVESTMENT

GANSU STATION CALLS FOR OPENING UP TO WORLD

HK100836 Lanzhou Gansu Provincial Service in Mandarin 2300 GMT  
8 Aug 85

[Station commentary: "Open the Door, Develop the Province in Order to Get Rich"]

[Text] The 10-day provincial external economic and technological cooperation and trade talks have opened a new chapter in the history of the province's external economic and technological cooperation and trade. The contracts signed at the talks on a large number of projects will play an active role in invigorating the province's economy and speeding up the four modernizations. In addition, much publicity was given at the talks to Gansu and we have made the acquaintance of many new friends and have cultivated cadres. These talks have laid a good foundation for us to carry out international economic and technological cooperation and trade.

At the 3d Plenary Session of the 12th CPC Central Committee, our party once again announced that opening up to the world is a long-term basic policy of China. This is because in the current world where productivity is highly developed, international economic and technological exchanges and cooperation go beyond boundaries and become a worldwide activity. If a country wishes to develop and upgrade itself and make progress, it must open up to the world. Not only developing countries should do so, but economically and technologically developed countries should also open up to the world. If a country is proud and conservative and closes its door, it will become backward. This is an objective law independent on man's will. The success of the provincial economic and technological cooperation and trade talks has once again proved this.

Gansu abounds in mineral resources and energy. After more than 30 years of construction, the province has laid down a very solid foundation in industry, agriculture, science, technology, and culture. Conditions are ripe for the province to bring in and digest advanced foreign technology and develop trade relations.

with foreign countries. All these provide a vast arena for those foreign friends who are interested in coming to Gansu. The talks have concluded, but our work of opening up to the world has just started. May all of us resolutely implement the policy of the CPC Central Committee on opening up to the world and enlivening the domestic economy on all fronts and in all word indistinct1, and earnestly to do our work to march forward. We are convinced that Gansu, the key link and prop in developing the northwest, will take off just like the whole country.

CSO: 4006/864

FOREIGN TRADE AND INVESTMENT

PRC HAVING DIFFICULTIES WITH FAULTY IMPORTS

HK070311 Beijing CHINA DAILY in Chinese 7 Aug 85 p 2

[Text] Some Chinese importers getting hoodwinked by defective foreign goods, are ignoring inspection bureau directives to seek damages. In some instances, the Chinese companies may even put the faulty goods out for sale.

According to the newspaper ECONOMIC INFORMATION, commodity inspectors in two provinces report that the instances of inferior goods entering the country are on the rise.

The Henan Provincial Inspection Bureau said that from January to June this year, 112 of 3,032 lots of imported goods were found to be defective, including broken or missing parts. The total value of imported goods was 225 million yuan. They included electric appliances, motor vehicles, and machine equipment.

The rate of goods found in poor quality increased 0.7 percent over the same period last year. The bureau is seeking compensatory payments of 27.91 million yuan, four times more than last year.

The damaged goods, the newspaper said were due to inadequate packaging in some instances and outright fraud in others.

In one instance, an underwear factory in the province imported nine textile machines, worth \$4.7 million, through a Hong Kong company. Six of the machines arrived with such serious problems that they could not be operated. In another instance, some minibuses imported by the National Defence Industry Office in Henan Province were found to have engine troubles and oil leaks.

In Zhejiang Province in the first half of the year, among 2.6 million metres of imported synthetic fibres, 67 percent were found to be defective.

The newspaper said some Chinese trade companies are afraid of seeking compensation for faulty goods for fear of damaging a good relationship with the importers.

The Chinese companies sometimes even rush to the defence of the foreign exporters at the expense of the state loss.

Meanwhile, the Beijing-based newspaper INTERNATIONAL BUSINESS reports that 80,284 Japanese color TV sets imported through Hong Kong were found substandard. The TV sets were imported by seven companies in Xiamen City, Fujian Province at a cost of more than \$11 million.

The Commodity Inspection Bureau in Xiamen issued certificates of compensation, but the seven Xiamen companies ignored the directive and put the TV sets on sale in the country.

CSO: 4006/864

FOREIGN TRADE AND INVESTMENT

PRC INVESTMENT CORP ISSUES BONDS WORTH HK\$300 MILLION

HK090829 Beijing XINHUA Hong Kong Service in Chinese 0730 GMT  
5 Aug 85

[Report: "The China International Trust Investment Company Issues Hong Kong Dollar Bonds in Hong Kong"]

[Text] Hong Kong, 5 Aug (XINHUA)--The China International Trust and Investment Corporation [CITIC], on the morning of 5 August, here in Hong Kong, signed an accord on issuing bonds worth HK\$300 million in Hong Kong with the managing group issuing the bonds.

Song Ziming, CITIC vice president, told a reporter of this service, it is the first time CITIC has issued Hong Kong dollar bonds in Hong Kong. It has met a warm response from Hong Kong banking circles. And the managing group has increased its membership from 16 to 18. The HK\$300 million bonds have all been subscribed for.

The principal of the current issue of bonds is to be returned in 5 years, at a fixed annual interest rate of 9.375 percent. The managing group consists of 18 Hong Kong banking organs. With the U.S. Chase Manhattan (Asia) Ltd. taking the lead, the rest are the Capital Market Group under the Bank of America; the International Private Banking Division under the Chemical Bank (HK); China Investment and Finance Ltd; RBJ (ASIA) Ltd; Kleinwort Benson (HK) Ltd; Nomura International (HK) Ltd; Banque Paribas; Bank of Tokyo International (HK) Ltd; China Development Finance Company (HK) Ltd; East Asia Warburg Ltd; Indosuez Asia (Singapore) Ltd; Manufacturers Hanover (Asia) Ltd; Nanyang Commercial Bank Ltd; (Oakland) [ao ke liang 1159 0354 5326] Royal Pacific Company Ltd; Sanwa International Finance Ltd; Shearson Lehman Brothers International; and Moran Grenfell and (Ampersand) Co Ltd.

According to Song Ziming the HK\$300 million collected through issuing the bonds will be spent mostly on industrial production in the hinterland, including such large-type industrial projects such as the Xiamen photosensitive film factory, the Fuzhou International Iron and Steel Corporation Ltd; and the Shanxi Pingshuo Coal Mine, with some of the money being spent in Hong Kong and Macao.

FOREIGN TRADE AND INVESTMENT

LOANS TO BE PROVIDED FOR PRODUCTION OF EXPORT GOODS

OW120857 Beijing XINHUA in English 0656 GMT 12 Aug 85

[Text] Beijing, 12 Aug (XINHUA)--The Bank of China will provide loans for production of low-cost but profitable export goods and expand its credit services to encourage commissioned exports.

Bank officials as quoted by INTERNATIONAL BUSINESS today said that the bank will also provide exchange to pay for a complete range of equipment, advanced technology and goods in urgent demand that are imported under state plans.

Priority will be given to loans earmarked for rebuilding and expanding present factories. While underwriting capital construction in energy, communications, non-ferrous metallurgy, and raw materials, it will provide loans for technical transformation of light industry and textiles, food processing, home electrical appliances, vehicles, motorcycles and building materials. It will also use its limited foreign exchange reserves for technical transformation of given key projects.

The bank has already extended its loans services to projects and capital stock for Chinese-foreign joint ventures and cooperative schemes, including both current exchange loans, buyers' credit and special loans, bank officials said.

The general office of the bank is revising rules for loans for the growing number of Chinese-foreign joint ventures and cooperative schemes.

CSO: 4020/329

FOREIGN TRADE AND INVESTMENT

BEIJING PAPER ON ENTREPOT TRADE WITH TAIWAN

OW131131 Beijing in Mandarin to Taiwan 1500 GMT 9 Aug 85

[Text] According to GUOJI SHANGBAO [INTERNATIONAL COMMERCE] published on 8 August in Beijing, the volume of the entrepot trade between mainland China and Taiwan has surged in recent years. Experts predict that the volume of the entrepot trade will exceed US\$1 billion this year. Commodities indirectly sold to Taiwan are primarily mainland China's medical materials, followed by fresh and frozen fish. Commodities Taiwan sells to the mainland via Hong Kong are mostly textile raw materials, followed by such light industrial consumer goods as television sets and motorcycles.

The entrepot trade between mainland China and Taiwan began in 1979, when the mainland started implementing the policy of opening to the outside world and called for exchanging postal, trade, and shipping services with Taiwan, but the volume was not large then. In 1984, the volume of the entrepot trade increased to US\$560 million, showing an average annual growth of 157 percent.

In reporting the news, GUOJI SHANGBAO said that this year's drastic growth in the entrepot trade is achieved against the background of Taiwan's sluggish economic development in recent years.

In support of the growing entrepot trade, the paper said that the entrepot trade benefits both sides of the Taiwan Strait economically.

CSO: 4006/864

FOREIGN TRADE AND INVESTMENT

INTERNATIONAL ISLAMIC COOPERATION COMPANY SET UP

OW121631 Beijing XINHUA in English 1622 GMT 12 Aug 85

[Text] Yinchuan, 12 Aug (XINHUA)--A business corporation was set up recently in this capital of the Ningxia Hui Autonomous Region to promote economic and technological cooperation between Chinese Moslems and foreign countries, the Moslem countries in particular.

The China Ningxia Islamic International Economic and Technological Cooperation Company will handle construction projects in foreign countries, technical services, labor cooperation, joint ventures, cooperative operations, compensation trade, processing and assembly, leasing, utilization of foreign funds and import of technology and equipment.

With a registered capital of 100 million yuan, the company was jointly approved by the Ministry of Foreign Economic Relations and Trade and the Ningxia People's Government.

Ningxia has 1.2 million people of the Moslem Hui nationality.

CSO: 4020/329

FOREIGN TRADE AND INVESTMENT

SINO-FOREIGN JOINT VENTURES INCREASE IN BEIJING

OW061753 Beijing XINHUA in English 1653 GMT 6 Aug 85

[Text] Beijing, 6 Aug (XINHUA)--Beijing signed contracts for 44 Sino-foreign joint ventures and cooperative enterprises in the first half of this year--equal to the total for the past six years, a local official said today.

These new joint ventures and cooperative enterprises involve investment of 584 million U.S. dollars--30 percent more than in the past six years.

There was a big increase in the first six months in the number of joint ventures involving manufacturing businesses and middle-range hotels.

Of the 44 new ventures and enterprises, almost half concern production of mainly foodstuffs, clothing and communications equipment.

Seventeen of the ventures involve hotels and apartment buildings, and 14 of these are for middle-range accommodation.

An important new phenomenon is the formation of joint ventures involving one foreign company and several Chinese ones, linking, for example, banking, manufacturing and foreign trade.

The first six months also showed an increase in the number of ventures linking foreign companies with smaller district- or county-run businesses. Eighteen of the 44 new joint ventures involve enterprises in Beijing's counties and districts.

The official added that the city also signed 94 contracts in the first six months for importing foreign technology worth 107 million U.S. dollars.

CSO: 4020/329

FOREIGN TRADE AND INVESTMENT

AGRICULTURAL PROJECTS PLANNED FOR FOREIGN INVESTMENT

OW151645 Beijing XINHUA in English 1520 GMT 15 Aug 85

[Text] Beijing, 15 Aug (XINHUA)--China will diversify the channels for absorbing more foreign investment in agriculture, the overseas edition of the PEOPLE'S DAILY reported today.

Quoting an official of the Ministry of Agriculture, Animal Husbandry and Fisheries, the paper said that, from now on, it will absorb as much direct investment as possible from foreign businesses.

In the coming few years, the key projects for foreign funds and technology are soil improvement, freshwater fisheries, land reclamation in Xinjiang, animal husbandry, agricultural development in poor areas, popularization of science, milk production, processing of farm and sideline produce, development of polders and technological imports for coastal open cities.

The country hopes that the projects will help promote the process of specialization, commercialization and modernization of the agricultural economy.

China has used an average of 130 million U.S. dollars in foreign funds annually over the past five years in agriculture. Projects undertaken included the improvement of alkaline soil on the North China Plain, rubber development in Guangdong Province, milk production in six bit cities and import of remote-sensing techniques.

CSO: 4020/329

FOREIGN TRADE AND INVESTMENT

DRIVE TO UPGRADE TOURISM SERVICES LAUNCHED

OW141019 Beijing XINHUA in English 0719 GMT 14 Aug 85

[Text] Beijing, 14 Aug (XINHUA)--Foreign tourists in China between August and October are asked, apart from sightseeing to air their views on the quality of hotel service, tourism guides and taxi drivers through questionnaires.

The China International Travel Service (CITS), which handles foreign tourists, has launched the questionnaire program to help it improve its services.

The information provided by foreign tourists and the reports of the tourist guides will be put into the CITS computer system for analysis and, on the basis of the results, advanced units and individuals will be commended, while lax ones will be reprimanded, according to a CITS official.

"We hope that this will help upgrade the attitude of the tourist guides and hotel attendants, and improve cooperation between different tourism units so as to provide standard service for foreign tourists," the official said.

The number of foreign tourists coming to China has been on the rise in the past few years, the official said. Last year, CITS received over 380,000 foreign tourists, as against 163,300 in 1979. It expects to receive 400,000 this year. In the first half of the year it already received 201,000, 21.2 percent more than in the same period of last year.

"Though China has unique tourism resources characterized by a good combination of magnificent landscapes and sites of historical interest, there is much room for service to be improved," he said.

CITS now has more than 100 branches and sub-branches in tourist cities and areas all over the country equipped with a contingent of over 4,000 guide-interpreters speaking a total of 20 foreign

languages. It has established business ties with over 500 tourism agencies worldwide.

China also has two other national tourism organizations--the China Travel Service, which receives overseas Chinese, foreign citizens of Chinese origin and tourists from Hong Kong, Macao and Taiwan, and the China Youth Travel Service, which mainly receives young tourists.

CSO: 4020/329

FOREIGN TRADE AND INVESTMENT

XIZANG SECRETARY AT HOTEL COMPLETION CEREMONY

OW121657 Beijing XINHUA in English 1638 GMT 12 Aug 85

[Text] Ilhasa, 12 Aug (XINHUA)--A first-class hotel with 1,132 beds was completed and handed over to the tourism office of the Tibet Autonomous Region here today.

As the largest of the 43 projects supported by other areas of China, the seven-story Ilhasa Hotel is composed of three buildings with a total floor space of nearly 40,000 square meters. Its presidential villas can accommodate two heads of state at the same time.

The hotel has reception halls, restaurants serving both Chinese and Western dishes, coffee rooms, teahouses, ballrooms and bars. All the bedrooms are equipped with air-conditioners closed-circuit television, telephones, and audio-visual and oxygen supply equipment.

Construction started 1 July last year and the name of the hotel is in the handwriting of Banqen Erdini Qoigyi Gyancan, vice-chairman of the Standing Committee of the National People's Congress.

Attending today's ceremony were Ngapoi Ngawang Jigme, vice-chairman of the NPC Standing Committee, and Wu Jinghua, secretary of the Tibetan Autonomous Regional Committee of the Chinese Communist Party.

CSO: 4020/329

FOREIGN TRADE AND INVESTMENT

LIANG BUTING RECEIVES FRENCH TRADE DELEGATION

SK060419 Jinan DAZHONG RIBAO in Chinese 11 Jul 85 p 1

[Text] On the afternoon of 10 July, at the Qilu Hotel, Liang Buting, secretary of the Shandong Provincial CPC Committee, received and feted (Xiabola), chairman of the Bretagne Regional Foreign Trade Coordinative Committee in France, and (Lejiaer), economic adviser to the head of the region's parliament, and had a friendly conversation with them. From 4 to 10 July, an eight-member enterpriser group from Bretagne Region led by Mr (Xiabola) visited Jinan, Qingdao, and Yantai Cities in the province. The visit was made to make preparations for promoting the friendly and cooperative relations between Bretagne Region and Shandong Province and for the visit of the Bretagne Regional Government delegation to our province this October.

Secretary Liang Buting and Chairman (Xiabola) held a wide-range discussion on developing economic cooperations and friendly relations between the region and the province. Mr (Xiabola) and Mr (Lejiaer) asked Secretary Liang Buting to pass a letter from (Maersailin), head of the region's parliament, on to Governor Li Changan.

Attending the reception were Ma Shizhong, vice governor of Shandong Province; and responsible comrades of the departments concerned under the provincial People's Government.

CSO: 4006/864

FOREIGN TRADE AND INVESTMENT

HUNAN, AUSTRALIA COOPERATE IN SUGARCANE FACTORY

HK100848 Changsha Hunan Provincial Service in Mandarin 1100 GMT  
8 Aug 85

[Excerpt] On 4 August, Governor Song Qingquan and leading comrades of the departments concerned inspected an experimental sugarcane factory in Linling Prefecture. They were accompanied by (Sun Yongzhi), secretary of the Linling Prefectural CPC Committee, and (Tang Shengshu), commissioner of the administrative office. The factory is currently working on sugarcane projects under the guidance of Australian experts.

Comrades Song Qingquan and other comrades listened to a report by the factory leadership, visited an experimental plot and nursery, and met the Australian experts working on the site. (sidafuzhe) and (tuomasifuyu).

Since the winter of 1982, because of the aid given gratuitously by Australia, the province has built a 600-mu experimental plot in the experimental sugarcane factory in Linling. This project has provided the foundation and experience for the province to develop a complete sugarcane trade which includes nurseries, field planting, orchard management, and the processing of fruits.

Comrade Song Qingquan and other comrades also discussed with the Australian experts the specific prospects for developing sugarcane projects. Starting this year, the Australian Government will build a modern fruit juice factory in Linling. Both parties are confident about further strengthening the cooperation.

CSO: 4006/862

FOREIGN TRADE AND INVESTMENT

NINGXIA COAL EXPORTS WILL INCREASE DRAMATICALLY BY 1990

OW201128 Beijing XINHUA in English 1044 GMT 20 Jul 85

[Text] Yinchuan, 20 Jul (XINHUA)--A local official said here today that coal exports from China's Ningxia Hui Autonomous Region will be increased at an annual rate of over 20 percent to reach 1.1 million tons a year in 1990.

According to Ningxia Vice-chairman Wang Yanxin, this is the target stipulated for the region in the Seventh Five-Year Plan (1986-1990).

The region expects to export 200,000 tons of coal this year, 25 percent more than in 1984.

Anthracite produced in Ningxia contains little dust, sulphur, or phosphorus and has high [heat yield]. It can be used in the metallurgical and chemical industries, and for [residential] purposes.

The region plans to excavate 5.1 million tons of anthracite in 1990. Now it is expanding the Ruqigou mine's capacity from 900,000 tons to 1.5 million tons a year, and building a dressing plant with an annual capacity of 2.1 million tons, which will be completed in July next year.

Since 1964, Ningxia has exported its coal to a dozen countries and regions, including Belgium, France, Japan, Malaysia, the Philippines, Britain, the Federal Republic of Germany, and Hong Kong.

CSO: 4020/311-F

FOREIGN TRADE AND INVESTMENT

BRIEFS

XIZANG'S FOREIGN TRADE PROFITS--The region's foreign trade departments at various levels have achieved remarkable achievements after reforming the structure in five areas, including the decentralization of decisionmaking power and the system of importing and exporting commodities on behalf of others. From January to May this year, the region earned some 2.2 million yuan of profits in foreign trade, an increase of 80 percent compared with the same period last year. In the first half of this year, the region's foreign trade departments purchased 60,000 jin of young pilose antler of goats, 50,000 jin of young pilose antler of oxen and over two tons of Chinese caterpillar fungus. The figures were almost equal to the total amount purchased last year. [Summary] [Lhasa Xizang Regional Service in Mandarin 1130 GMT 9 Aug 85 HK]

ANHUI TOURIST--The Anhui Overseas Chinese Affairs Office, the Huangshan Administration, and Canada's Tianbao China Investment Company, Ltd, signed an agreement on 2 July on cooperation in building a tourist hotel in scenic Mount Huangshan, and an overseas Chinese hotel in Hefei. According to the agreement, a modern, 3-star class tourist hotel, catering mainly on foreign tourists visiting China, will be built near a hot spring on Mount Huangshan. The hotel, which will cover a construction space of 40 mu, will have about 300 rooms, including some luxury ones. The overseas Chinese hotel in Hefei will also be a 3-star class hotel. It will cover a construction space of some 4,200 square meters, and will have about 150 rooms. [Summary] [Hefei ANHUI RIBAO in Chinese 4 Jul 85 p 1 OW]

TRADE CENTER IN UAE--The China Council for Promotion of International Trade [CCPIT] will soon set up a China Trade Center in Abu Dhabi, capital of the United Arab Emirates. The agency's central task will be the promotion of trade, as well as economic and technological cooperation through civilian channels, between China, the UAE, and other Gulf states. Sun Fang, vice chairman of the CCPIT, is concurrently serving as chief representative at the trade center. [Summary] [Beijing in Mandarin to Taiwan 0400 GMT 23 Jun 85 OW]

SHANGHAI-YOKOHAMA JOINT VENTURE--The contract on the Shanghai Zhongtiao Pipeline Engineering Company, the first joint venture undertaken by Shanghai and Japan's Yokohama City, was signed at a ceremony on the afternoon of 20 June in Shanghai. [Text] [Shanghai City Service in Mandarin 0100 GMT 21 Jun 85 OW]

INNER MONGOLIAN TOURIST TRADE REPORT--Hohhot, 9 Aug (XINHUA)-- Every day more than 100 foreign tourists arrive in this capital city of the Inner Mongolian Autonomous Region, a local tourist official said here today. Some come to spend a few days on the grasslands where the temperature averages about 20 degrees centigrade, and others visit scenic spots. By the end of July, nearly 5,000 tourists from 28 foreign countries had visited the grasslands. Record numbers are expected this year. Inner Mongolia has a dozen tourist spots on the grasslands where visitors can ride horseback, watch horse and camel races and wrestling, spend the night in a yurt and eat the famous Mongolian hot pot and roast lamb. [Text] [Beijing XINHUA in English 1525 GMT 9 Aug 85 OW]

SHANGHAI OVERSEAS INVESTMENTS--Shanghai--From 1981 to June this year, Shanghai has invested \$8 million in 13 overseas joint venture projects. Those projects have assisted in importing high technology, exporting home products, exchanging world market information and opening up sources for production materials. Hong Kong Shenda Garment Factory, a Shanghai-Hong Kong joint venture, started making profits in the fourth month of operation. And by channeling information on clothing trends back home, it has helped the Shanghai garment industry adapt its production to the world market. [Text] [Beijing CHINA DAILY in English 10 Aug 85 p 2 HK]

CSO: 4020/329

LABOR AND WAGES

GAO DI SPEAKS ON ISSUES RELATED TO WAGES, BONUSES

SK071000 Changchun Jilin Provincial Service in Mandarin 1030 GMT  
6 Aug 85

[Text] Recently Comrade Gao Di delivered a speech on the wages and bonuses for the plant-level cadres of the Jilin Ferroalloy Plant. In his speech, he pointed out: The XINHUA NEWS AGENCY and a certain newspaper have criticized the Jilin Ferroalloy Plant's practice of continuously promoting the cadres at the plant level in recent years and giving them bonuses in a duplicated manner. This criticism is correct, and will help the province guard against such practice. Thus we should accept it. We must, first, fully affirm that this criticism will help us develop the party cause, straighten out the party style, build closer relations between cadres and the masses, and ensure the smooth development of reform.

Second, we should affirm that in recent years this plant has truly scored great achievements in its work, has managed itself well, has made great contributions to the province, and has been one of the financial mainstays of the province. These achievements were credited to the efforts of the leaders of the plant. However, it is common knowledge that everything divides into two, and every advanced unit has its deficiencies and problems. As an organ at a higher level, it should give more considerations to the achievements scored by enterprises. However, as a leader of an enterprise, it should give more consideration to the deficiencies and problems of the enterprise. We should not catch sight of the achievements to the neglect of problems. Of course, we should not negate all achievements scored by the plant just because of this mistake. We should approach this issue from two different angles, rather than one.

The third point of Gao Di's speech concerns wages and bonuses for the cadres at the plant level. In the past 2 years, the plant has promoted the plant-level cadres in a relatively rapid manner, and has given them relatively bigger bonuses, thus arousing complaints among the masses. The higher-level organs should assume responsibility for this problem. However, cadres of the plant,

party-member leading cadres in particular, should set strict demands on themselves instead of stressing on the objective factor.

In handling problems inside the party, we should follow three standards. The first is the policy standard. This is a socialist standard as well as the standard of distribution according to work. But for party members and party-member cadres, there is another standard--the standard of the sense of party spirit and communism. This is a high standard. Our ideal is to realize communism, and support communist ideals and style. If we only support socialism, ignoring communism, we are not communists, nor are we real communist party members. In line with the socialist standard, we should distribute income according to word. In line with the communist standard, we should put other people's interests ahead of our own, be perfectly impartial, and be the first to bear hardships and the last to enjoy comforts. The third standard--the lowest one--is the standard of the party discipline. If we violate this standard, we should be punished. In solving the problems in this regard, leaders should handle affairs according to policies. As far as party-member cadres are concerned, they should set strict demands on themselves in line with the standard of party discipline. What is glory? The most glorious thing to communist party members is to make more contributions to the party and the people, and put in much work while asking for less remuneration. In valuing a party member, we should not see how much he has received, but should see how much he has done. A good communist party member should set demands on himself in line with this principle. [Words indistinct] In solving problems in this regard, the general principle is to set strict demand on oneself, and handle affairs in line with the guidelines of the enlarged meeting of the provincial CPC Committee. Meanwhile, we should pay attention to enhancing our ideologocial awareness, our sense of party spirit, and our world outlook, and solve problems ideologically. As far as the aforementioned problems are concerned, the higher authorities actually have responsibility for them. But, proceeding from the standard of party spirit, we should admit that we still lag behind the demands for ideological awareness and the sense of party spirit. I hope that this plant will adopt a correct attitude toward problems. This situation itself is not good, but we can [words indistinct]. We should enhance our spirit, and further improve our work. In handling this issue, we aim to enhance cadres' ideological awareness, improve the relationship between the party and the masses and between cadres and the masses, achieve better results in production, and make more contributions to the state.

CSO: 4006/866

LABOR AND WAGES

BRIEFS

BEIJING STUDENTS' JOB ASSIGNMENTS--The work of assigning jobs to 17,300 college graduates this year has been basically completed. Some 700 college graduates volunteered to work in remote border or minority areas. Since 1981, more and more students have volunteered to work in remote border areas. The Beijing Municipal CPC Committee and People's Government held a farewell party today for the students who are leaving to work in remote border areas. Vice Mayor Chen Haosu encouraged the students to make contributions to the state in the border areas. [Summary] [Beijing Domestic Service in Mandarin 1200 GMT 17 Jul 85 OW]

CSO: 4006/866

TRANSPORTATION

BEIJING URGED TO IMPROVE TRANSPORTATION

OW081110 Beijing XINHUA in English 1039 GMT 8 Aug 85

[Text] Beijing, 8 Aug (XINHUA)--Beijing's daily commuter population is now 880,000, the largest in China, according to a survey by the capital's statistics bureau.

The survey indicates that the large population moving between Beijing's eight urban and suburban districts every day has boosted the city's economy, trade, tourism, and various services. However, it has also added to the bus, housing and restaurant shortages in the capital city.

Among the goods sold at Beijing's farm produce markets during the first half of this year, 80 percent were sold by farmers from other provinces.

According to statistics, 11.1 percent of the city's total volume of retail sales last year was from goods purchased by the itinerant population.

According to the survey, 75 percent of the dialy travellers use highways; 24 percent, trains; and one percent, airplanes.

The survey says that the city's temporary residents number 660,000.

Among these, 49.3 percent come to work in the fields of construction and commerce or as housemaids; 15.5 percent come to visit relatives; and 18 percent come to travel, attend meetings, take refresher courses in colleges or visit hospitals.

With the itinerant population increasing, municipal departments concerned urge that the city speed up the development of its transportation and service trades.

CSO: 4020/325

TRANSPORTATION

CHINA DAILY QUOTES STATISTICS ON PRIVATE TRANSPORT

HK110141 Beijing CHINA DAILY in English 11 Aug 85 p 2

[Text] Individual-run transport services have developed rapidly in China over the past two years, the newspaper CHINA ADVERTISER reported.

Quoting government statistics, the report said passenger coaches and cargo trucks operated by individuals and co-operatives has reached 173,000, an increase of 2.4 times over 1983. The services account for about two-thirds of specialized transport vehicles operated by communications and transport departments, the report said.

Calculated on the basis of a sample survey, the freight volume of these individual and co-operative transporters was estimated at 10 percent of the nation's total.

Other means of transport operated by individuals also is developing rapidly. Nearly 1.3 million tractors and 300,000 motor vehicles and various types of ships totalling 1.27 [figure as published] tons now used for transport nation-wide.

The rapid development of individual transport, a government official said, has not only broken the monopoly of specialized transport departments but also has changed the uneven distribution of transport power in urban and rural areas.

CSO: 4020/325

TRANSPORTATION

STATE FUNDS NEW PORT PROJECT ON HAINAN ISLAND

HK060311 Beijing CHINA DAILY in English 6 Aug 85 p 2

[By Song Xihui]

[Text] Guangzhou--Hainan plans to speed up implementation of state-funded harbour and highway projects. These projects are crucial to the overall development of the island's economy.

Located in the tropical zone, Hainan Island remains a production base for tropical crops and aquatic products. It also has rich mineral resources, including more than 50 kinds of high grade ores, oil deposits, gas fields and numerous tourist attractions.

Despite these assets, development on the island has lagged because of poor shipping and highway facilities.

In order to improve the situation, the State Ministry of Communications provided investment funds to enlarge two deepwater berths for 5,000-ton ships. When the project is completed in a year, these ports will be able to handle up to 500,000 tons of cargo a year.

Another project to build two multifunctional berths for ships over 10,000-tons has been approved by the State Council. The project will cost up to 200 million yuan and the volume of freight handled at the port will reach 1 million tons. Construction is expected to begin next year.

CSO: 4020/325

TRANSPORTATION

OFFICIAL REVEALS EASEMENT IN PORT CONGESTION

OW020902 Beijing XINHUA in English 0848 GMT 2 Aug 85

[Text] Beijing, 2 Aug (XINHUA)--Urgent measures to unplug the bottleneck at China's major ports are proving successful, a Communications Ministry official said here today.

The number of ships waiting to load and unload had been reduced by 39 from the 23 July peak of 540 to 501 on Wednesday.

Measures taken include bringing 12 deep-water berths into operation ahead of schedule, releasing soldiers and military facilities to tackle the problem and sending special groups to help at the most badly-congested harbors.

The ministry official said that 127 Chinese and foreign ships were now being loaded or unloaded at the clogged ports of Shanghai, Tianjin, Dalian, Huangpu, Qingdao and Lianyungang.

Further efforts were being made to ease the backlog. Construction was in full swing at another 102 deep-water berths, and road and rails links were being improved to free stockpiled goods.

CSO: 4020/325

TRANSPORTATION

JPRS-CEA-85-082  
9 September 1985

BRIEFS

ZHEJIANG INLAND WATERWAY--Recently, the provincial science department, the provincial communications department, and the Huzhou City Government conducted a survey on Changhu Inland Waterway and drew up a renovation plan. The Changhu Inland Waterway, which flows from Changxing County to Shanghai, via Huzhou City, is one of the most important inland waterways in northern Zhejiang. It is known as the Little Rhine of China. In recent years, its annual transportation capacity reaches more than 19 million metric tons, surpassing tonnage carried by the Shanghai-Hangzhou Railway. [Summary] [Hangzhou Zhejiang Provincial Service in Mandarin 1000 GMT 16 Jul 85 OW]

JIANGSU AIR SERVICE--Beginning 1 August, the Jiangsu Civil Aviation Administration will inaugurate the Shanghai-Lianyungang air service. An fb360 passenger plane, a small, late model passenger plane the Civil Aviation Administration of China recently purchased from Britain, will be used to provide the two-flight-a-week air service. [Summary] [Nanjing Jiangsu Provincial Service in Mandarin 2300 GMT 25 Jul 85 OW]

GUIZHOU NEW BRIDGE--Guiyang, 31 Jul (XINHUA)--The Tian He Bridge, China's first prestressed concrete cantilever truss bridge with an extraordinarily large span, was completed and opened to traffic on 30 July. This large, 241.1-meter long bridge, which straddles the Qingshui Jiang in the middle part of Jianhe County in Guizhou Province, has a main arch spanning 150 meters. Among other similar bridges in China, this one has the arch with the largest span. [Text] [Beijing XINHUA Domestic Service in Chinese 1149 GMT 31 Jul 85 OW]

JIANGSU RAILWAY CONSTRUCTION--Construction of the 19-kilometer railway line between (Maocun) and (Xiahe), one of the 136 key state construction projects during the 7th 5-year plan period, began on 5 August. With a total investment of 83 million yuan, this project is scheduled to be completed in October 1986. [Summary] [Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 6 Aug 85 OW]

JIANGSU RAILWAY EXPANSION--Nanjing, 9 Aug (XINHUA)--East China's railway hub in Xuzhou, Jiangsu Province, began expansion work this week. At the junction of Jiangsu, Shandong, Henan, and Anhui Provinces, the Xuzhou Railway Station is connected to two trunk railways--the Beijing-Shanghai Railway, running north to south, and the Longhai Railway, running west to east. The railway expansion, one of the state's major capital construction projects, includes building a 19-km section leading directly to the Menjiagou Marshalling Yard and a stock yard to the west of the Xuzhou Railway Station, and expanding the Menjiagou Marshalling Yard and passenger terminals. With an investment of 630 million yuan, the expansion work will be completed in 7 years. By that time, the hub's freight transport capacity will increase by 45 percent from the present 12 million over the present 9.4 million. As many as 13,000 trains pass through the Xuzhou railway hub a day. Freight transport is expected to increase at the rate of 8 percent a year following the country's economic development.

[Text] [Beijing XINHUA in English 0643 GMT 9 Aug 85 OW]

CSO: 4020/325

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

RENMIN RIBAO ARTICLE ON JAPANESE CAPITAL OUTFLOW

HK210906 Beijing RENMIN RIBAO in Chinese 9 Jul 85 p 7

[Article by Lu Zhongwei [7120 1813 0251]: "The Wave of Japan's Capital Export"]

[Text] Since the beginning of the 1980's, Japan has been very active on the international financial stage: It has internationalized the Japanese yen; it is making preparations for the establishment of a "Tokyo offshore market"; and it exports capital at the rate of tens of billions of U.S. dollars a year, thus affecting the world economy. Japan's economic development strategy, which could previously be characterized as that of a "trade oriented country," is now being replaced by the strategy of an "investment oriented country." This has aroused the concern of people in financial circles.

According to the so-called theory of phased international balance of payments, Japan is now an "immature creditor country." That means that in the area of international finance, Japan has freed itself from its chronic shortage of capital and entered a developmental stage characterized by an outflow of capital. In addition, it has also become the world's "No 1 capital exporting country" and "a creditor," thus playing the role of an "international money-lender." In the past 4 years, Japan has exported more than \$90 billion by investing money abroad, by extending loans to foreign countries, by purchasing slow-return bonds issued by foreign governments and enterprises, and by increasing its aid to developing countries. This massive capital outflow is the "greatest amount of circulated capital so far in world history," comparable to the "sum of the petrodollars accumulated" by OPEC. Since 1981, the value of Japan's overseas net assets has been growing noticeably. By 1983, Japan's overseas assets had netted \$37.2 billion, surpassing those of West Germany to become "the world's third largest creditor." It is said that in 1984, the net value of Japan's assets rose to \$87.2 billion, whereas that of U.S. assets dropped from \$106 billion to about \$10 billion. Thus, Japan has replaced the United States as the world's largest creditor. The enormous increase in the value of

Japan's net assets has led to changes in non-trade revenue and expenditure. Profits derived from investment, such as interest and dividends, are increasing. In 1983, all this totalled \$3.1 billion, an all-time high.

There are three main factors which give impetus to Japan's overseas investment and financial work: First, the large surplus accrued from its ordinary receipts and expenditures are a basis for the outflow of its capital. Since the 1970's, backed by its highly efficient high technology industries, Japan has gained an advantage over others in trade. There was a trade surplus of more than \$50 billion in both 1983 and 1984. These trade surpluses were "the profits made by Japan's industry by conquering the world market with its automobiles, videotape recorders, cameras, and computers." All this has enabled Japan to play the role of a "capital superpower" and to buy and sell such financial commodities as stocks and bonds on the international financial market. Second, there is the "finance liberalization" policy pursued by the Japanese Government. Toward the end of the 1970's, Japan's financial and capital market was opened, "stock exchange, investment, and trust were liberalized," and a "new foreign exchange law" was promulgated. The issuance of foreign negotiable securities is becoming increasingly frequent and the quantity of foreign negotiable securities issued is increasing. Japanese financial investors such as banks, stock exchange companies, and life insurance companies have squeezed their way into the international capital market as a result of liberalization. Third, there is a difference between U.S. and Japanese interest rates and between the taxation systems in force in the two countries. For example, the interest rate on Japan's 10-year national debts is 6.7 percent and that on the United States' 20-year national debts is 11.7 percent. The difference is 5 percent, which is quite a big difference. This facilitates the massive outflow of Japanese capital.

In recent years, Japan's financial circles have been trying to give the status of an "investment-oriented" strategy to the massive outflow of Japanese capital. Given the "technology-oriented" and "trade-oriented" strategies, they also want to "make Japan's manufacturing industry a means by which Japan obtains food for survival." In addition, they also export to foreign countries those assets with which they cannot derive large profits from production, in order to draw dividends and to stimulate the pulse of Japan's domestic economy. Thus, Japan's monopoly financial groups have put forward ambitious overseas investment plans. Regarding investment in production, the Mitsubishi Interdisciplinary Research Center has put forward a so-called "new global policy" which proposes the construction of a Himalayan hydroelectric power station on the Sino-Indo border, the construction of a canal in Thailand's Isthmus of Kra, and the construction of a modern "silk road." The "Center for Japanese Economic Studies"

has proposed a "plan for doubling paddy output in Asia" and intends to extensively develop hydroelectric power supply and the production of chemical fertilizers in Asia. Regarding investment in banking, Japanese banks and capitalists want to establish a "Tokyo offshore center [as published]" and extend loans on less harsh terms in order to turn Tokyo into a new international capital market. Some scholars and experts suggested that on the international market, Japan should, by relying on its great economic strength and its increasingly advanced industry, continue to contend with Europe and the United States, earn as much foreign exchange as possible, and back the economy with government efforts. Provided Japan's economic strength will not be weakened, it is to further open the domestic market, whet domestic needs, alleviate the pressure from Europe and the United States, strengthen the "management of risks" involved in the outflow of capital, and ensure investment security.

It is predicted that Japan will continue to export Capital at a record rate in order to become the world's "largest or second largest" creditor and to bring about international financial changes, and that at the present rate Japan is investing money abroad and the United States is borrowing money, 5 years from now the United States will owe 31,000 billion in debts and other countries will owe Japan 3,500 billion. The United States makes up its balance of payment deficits by relying on an inflow of capital from other countries. As a result of this, a change not expected in the past 70 years or more will take place and the United States will become a debtor from a creditor. This will lead to uncertainty about the credibility of the U.S. dollar. Of course, the outflow of Japanese capital has somewhat alleviated the prolonged shortage of capital on the U.S. capital market and prevented interest rates from going up, thus objectively contributing to the stability of the world economy.

CSO: 4006/864

TAIWAN

BRIEFS

FOREIGN INVESTMENT STATUTES REVISION--Taipei, The Ministry of Economic Affairs has begun to revise the statutes governing foreign and overseas Chinese investments in order to attract more foreign capital to this nation and liberalize the nation's economy. An official of the Investment Commission under the Ministry of Economic Affairs said: The revision this time is aimed at loosening restrictions over the qualifications of investors and categories of investment, simplifying application procedures, easing the control over the remittance of foreign exchange, and safeguarding investments. [Text] [Taipei Domestic Service in Mandarin 2300 GMT 27 Jul 85 OW]

CSO: 4006/853

## CHINA SETS WAGE REFORM IN MOTION

Hong Kong JING BAO [THE MIRROR] in Chinese No 7, 10 Jul 85 pp 26-27

[Article by Lu Zhimin [7627 0037 3046]: "Mainland Sets Wage Reform in Motion"]

[Text] China's overall economic structural reform this year will begin with two difficult projects of most crucial importance in reforming the price system and the wage system. All men of insight are aware that the reform of the price system with nonstaple food as the dominant factor is a very sensitive matter. As we see it now, except in a few cities where some troubles are being remedied, things are progressing smoothly without a hitch. The wage reform, which is just as sensitive a matter as the price system, has been expected by the people for several years, but more time was needed to study the plan and make preliminary preparations. By the first part of June, a red-letter official document was finally handed down setting in motion the machinery of this reform.

### Rationalizing the Wage Structure

The main focus of this wage reform is to rationalize the wage structure and put an end to the extremely complicated and confused situation relating to wage standards in the past. However, anyone who expects a big increase in income overnight will be disappointed.

As a result of the first step taken in wage reform this year, more than 90 percent of the functionaries in government organizations and institutions can expect wage increase varying in degrees but the standards are still low. It is said that according to the per capita national average, the functionaries, including primary and middle school teachers, will each receive an 18-yuan increase in monthly wage as estimated (government organizations and institutions will start in July and primary and middle school teachers will get it in January). Officials and middle-aged intellectuals who were promoted in recent years are among the functionaries receiving more benefits; primary and middle school teachers and nurses in hospitals will receive extra allowance in varying sums in addition to the increased wages under the new system.

Why is it that those who were promoted in recent years are getting more benefits? This is because their original wage grades were set so low as not to be commensurated with their current posts. For example, some minister-level officials in Grade 1 organizations under the central authorities, are still drawing Grade 15 and Grade 16 wages; many officials in division and bureau chief positions are drawing Grade 17 and Grade 18 wages or lower. By getting a job promotion without receiving a corresponding wage increase, those people are unjustifiably constrained by the old system and on one is in a position to make a decision to raise the remuneration correspondingly in their favor (except for special individuals).

Giving the primary and middle school teachers and nurses an extra length-of-service allowance on top of the monthly wage increase under the system is a clear indication that their wage standards were set too low at the beginning and that the work they are doing is more arduous than that performed by functionaries in general. For a number of years, many people have not been taking jobs as primary and middle school teachers and nurses. Even the authorities have appealed to the public time and again to elevate the status of primary and middle school teachers and nurses, only limited results were achieved because only political work was done. Men of insight have always advocated that their economic status must also be elevated at the same time and that this issue can be solved by combining spiritual with material incentives. The practice of giving length-of-service allowances to teachers and nurses under the new system signifies that the CPC is on the way to elevating the economic status of primary and middle school teachers and nurses.

#### Average Per Capita Increase of 18 Yuan

The reform program at this time has separated the government (including institutions under the government) from the enterprises and is confined to government organizations and institutions. Separate provisions are made for wage reform measures applicable to enterprises. The gains of workers and staff members and their labor results and profits made by the enterprises are closely linked together. Moreover, steps are to be taken to award the diligent and punish the lazy with awards for superior quality and penalties for inferior quality, uphold the principle of more pay for more work and less pay for less work, and widen the gap between more complicated labor and simple labor and between mental labor and physical labor. In short, it is aimed at bringing about a drastic change in the structure characterized by "enterprises eating from the same big pot of the state and workers and staff members eating from the same big pot of enterprises."

Each person can only get a monthly wage increase of 18 yuan this year. Since the amount of increase is so small and the standard of living cannot be raised notably, many people will be disappointed and start to blame everything and everyone but themselves. But such ideas as "limited by state financial resources, the standard has to be low this year" and other remarks are spreading across the country. This reform plan had gone through repeated discussions between the higher and lower levels since it was initiated and until a final decision was reached at the wage conference in

the latter part of May. This long process, however, unified the understanding the people of all circles and mentally prepared personnel at the grassroots for the reform. People in all walks of life think that it will be understood and accepted.

It has been learned that the reason for such a small increase in wages is that there is not enough money to go around. Since the wages of functionaries are paid from the state revenue, although the per capita average increase is small, nationally speaking, RMB 4 billion yuan has to be allocated from the state revenue this year. It is estimated that more money has to be allocated next year if another small step is taken. People in financial circles indicated that the annual increase in financial revenue by the end of last year (the year in which financial revenue increased in step with industrial and agricultural growth) did not break through the 10-billion yuan mark. As a result, it appears that more than 40 percent of the increased financial revenue is going to be used for wage increases in the current wage reform. "First, feed the people and second, build the country" (Chen Yun's remarks), to push the four modernizations, naturally we cannot "divide up and eat up everything." Judging from the present ratio we have to admit that this wage increase is of "low standard," but this is the best the authorities can do and it will definitely not work if a greater increase is effected.

#### New System Takes Job Wage As Dominant Factor

Zhao Ziyang once explained that job wages in the new system are the dominant factor. This has now confirmed the synthetic wage system of "job wage + basic wage + length-of-service allowance" under the new system widely rumored in the past.

The so-called "basic wage" is actually basic living expense. All functionaries without any exception, from a township office worker to state chairman and premier, each gets a monthly wage of 40 yuan. In this sense it can be said that it is still a setup of "eating from the same big pot." The differences are still quite big even though the job wages are differentiated according to grades. In regard to the length-of-service allowances, the amount is pitifully small, an increase of half yuan in monthly wage for each additional year of service with the maximum amount set at 20 yuan. In other words, it is calculated up to 40 years. Casting aside the insignificance of getting a monthly wage increase of half yuan for each additional year of service, the 40-year limit set merits our long-range consideration. This limit is commensurated with the plan of setting up a normal retirement system being considered: A man starts to work at the age of 20 in society and will retire as scheduled at the age of 60 after 40 years of service.

What is the gap between the minimum amount and the maximum amount of wages? According to figures from the Beijing area: a low-ranking office worker without much education and without length-of-service allowance just starting work receives a monthly wage of 52 yuan; a state chairman or premier with qualifications and a record of long services and with present wage grades raised to a certain extent can receive a monthly wage of 530 yuan, so the difference between the two is 10-fold.

As compared with the standard in the early 1950's, the increase for the latter amounts to merely 10 percent. At that time, founding fathers like Mao Zedong, Liu Shaoqi and Zhou Enlai who were on Grade 1 of the wage scale received a monthly wage of 500 yuan (the voluntary wage reduction led by Mao in later days was another matter). Calculated on the basis of 50 percent RMB depreciation in 30 years, it should be said that the actual income for CPC leaders at the highest level has greatly decreased. The monthly wage of an office worker at the lowest grade at that time was 27 yuan, the present wage can at least compensate for the RMB depreciation today. Besides, a grade step increase can be expected in 1 or 2 years from now on and the job wage of a low-ranking office worker can go up from 12 yuan to 42 yuan monthly with the hope of ultimately reaching more than 82 yuan in monthly pay (because the length-of-service allowance is added). Those who receive the highest monthly wage of 530 yuan have reached the peak and will not get any more raises under the new system.

A bonus is actually a form of wage. Bonuses were issued indiscriminately last year in shocking amounts in some units bringing about almost disastrous consequences, to the detriment of the current reform. Under the provisions of the new system, no bonus will be issued in normal circumstances, but a one-time award will be given to a person who has made important contributions and with an exceptional record. It is also stipulated that the award is given only to the person concerned instead of "collecting gratuitous financial help" in an egalitarian way.

The new wage system can neither be called perfect nor can it satisfy everyone with its results. Since wage reform in government organizations and institutions involves the immediate interests of more than 20 million people, it is almost impossible to carry it out without running into any trouble. However, no big trouble is anticipated because more than 90 percent of the people are getting a wage increase varying in degrees and are expecting a pay raise next year and job promotion in grades regularly. This is a good thing that merits due recognition since the reform will basically keep the lazybones from "eating from the same big pot."

12662  
CSO: 4006/783

HONG KONG ECONOMIC TRENDS

ACCORD SIGNED FOR ISSUING HONG KONG DOLLAR BONDS

OW091045 Beijing XINHUA Domestic Service in Chinese 1503 GMT  
5 Aug 85

[Text] Hong Kong, 5 Aug (XINHUA)--The China International Trust and Investment Corporation and a dealers' group held a ceremony in Hong Kong on the morning of 5 August to sign an agreement for the issuance of HK\$300 million in bonds.

Song Ziming, vice president of the China International Trust and Investment Corporation, said in an interview with the XINHUA reporter: The company has received enthusiastic response from Hong Kong financial circles in issuing Hong Kong dollar bonds in Hong Kong for the first time, and the number of dealers has expanded from the original 16 to 18. All of the HK\$300 million in bonds has been subscribed.

The bonds issued this time have a redemption period of 5 years, with an interest rate set at 9.375 percent. The dealers group is made up of 18 financial organizations in Hong Kong. In addition to the group leader, U.S. Chase Manhattan Financial Co Ltd (Asia), it also includes the Capital Market Department of the Bank of America, the International Department of the Overseas Chinese Bank of America [Mei hua yin hang 5019 5478 6892 5887], the Japanese Kyogo Co Ltd (Asia), the China Construction and Financial Co Ltd (Hong Kong), Dong Fang Hui Li [2639 2455 0565 3810] Asia Co Ltd (Singapore), and Nan Yang [0589 3152] Commercial Bank.

Song Ziming said: Regarding the HK\$300 million raised through issuing the bonds this time, except for a portion to be used in the Hong Kong and Macao area, most of the money will be used for industrial production in the interior, including for such large-scale industrial projects as the Xiamen sensitive film plant, the Fuzhou International Steel Co Ltd, and the Shanxi Pingshuo Coal Mine.

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